بنك الاستثمار الدولي
INTERNATIONAL INVESTMENT BANK

NEW HORIZONS
THROUGH TRANSFORMATION

Annual Report | 2019

International Investment Bank B.S.C. (c)
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Principal bankers and professional advisors

Principal Bankers
Ahli United Bank B.S.C., Kingdom of Bahrain
Al Salam Bank - Bahrain B.S.C., Kingdom of Bahrain
Ithmaar Bank B.S.C. (c), Kingdom of Bahrain
Bahrain Islamic Bank B.S.C., Kingdom of Bahrain

External Auditors
KPMG Fakhro, Kingdom of Bahrain

External Legal Counsel
Zu'bi & Partners, Kingdom of Bahrain
Zeenat Al Mansoori & Associates, Kingdom of Bahrain

بسم الله الرحمن الرحيم

CONTENTS

CORPORATE PROFILE

International Investment Bank (IIB) is supported by a robust shareholder base of high net worth individuals, business houses and institutions spanning the GCC states.

International Investment Bank ("IIB") is an established Islamic wholesale investment bank that is driven by a clear vision to develop a diversified investment portfolio. The Bank offers a range of ethical investment opportunities in yielding assets located throughout the developed world. IIB builds long term relationships with clients and aligns interests with specialized investment partners who have a proven track record of success.

Established in 2003 in the kingdom of Bahrain, IIB is licensed and regulated by the Central bank of Bahrain (CBB) and supported by a robust shareholder base of high net worth individuals, business houses and institutions spanning the GCC states. The Bank's world-class Executive Management team deliver expertise gained from 197 years of combined industry experience. To date, IIB has been involved in investments totaling approximately US$3.3 billion.

VISION, MISSION AND VALUES

Vision

“We aspire to be preeminent providers of alternative Shari’ah investments that support economic growth and contribute to improve quality of life”

Mission

“To provide well informed and innovative Shari’ah financial and investment solutions with attractive risk-adjusted returns”

Core Values

Our Guiding Principles are:

- To positively impact our clients, the marketplace and our community
- To be professional and respectful in our actions towards our clients, partners and each other
- To be honest and transparent
- To continually pursue knowledge
- To be motivated and fulfilled by our work

FINANCIAL HIGHLIGHTS

TOTAL ASSETS

US$ 46.2m

SHAREHOLDERS' EQUITY

US$ 44.4m

TOTAL INVESTMENTS

US$ 33.6m

CAPITAL ADEQUACY RATIO

19.5%

FIVE-YEAR FINANCIAL SUMMARY

Earnings (US$ millions)	2019	2018	2017	2016	2015
Total income	**(8.2)**	(0.3)	1.3	(4.4)	(9.7)
Total expenses	**4.9**	7.2	6.3	7.8	8.8
Operating loss	**(13.0)**	(7.5)	(5.0)	(12.2)	(18.5)
Impairment charge and FX	**(5.9)**	(6.8)	(28.6)	(8.7)	(10.9)
Net profit from discontinued operations	**-**	0.9	1.3	-	-
Net loss	**(19.0)**	(13.4)	(32.3)	(20.9)	(29.4)

Financial Position (US$ millions)					
Total assets	**46.2**	72.2	141.4	199.6	230.2
Cash and placements with financial institutions	**12.4**	17.0	6.1	11.6	39.4
Investments	**33.6**	54.7	131.9	184.4	187.1
Financing of specific investments	**-**	4.4	60.7	67.8	64.4
General unallocated financing	**-**	-	-	10.2	30.6
Equity (attributable to equity holders of the parent)	**42.6**	58.8	71.7	103.2	127.0

Ratios					
Profitability					
Return on average equity (%)	**(33.3)**	(19.4)	(35.2)	(18.8)	(18.3)
Return on average assets (%)	**(32.0)**	(12.6)	(19.0)	(9.7)	(11.7)
Earnings per share (cents)	**(16.2)**	(11.5)	(27.7)	(17.9)	(25.2)
Cost-to-income ratio (%)	**(59.8%)**	1150.7%	242.3%	(177.3%)	(90.7%)

Capital					
Capital adequacy ratio (regulatory minimum 12.5%)	**19.5**	22.0	21.0	25.3	21.7
Equity/total assets (%)	**96.0**	88.4	55.3	55.8	57.3

Liquidity and Other					
Investments/total assets (%)	**72.6**	75.8	93.3	92.3	81.3
Liquid assets/total assets (%)	**36.8**	23.6	4.3	5.8	17.1
Assets under management (US$ millions)	**53.4**	93.9	131.7	181.2	282.3
Number of employees (at year end)	**26**	26	28	29	33

BOARD OF DIRECTORS' REPORT

"IIB's priorities during 2020 are to preserve sufficient levels of liquidity and capital adequacy; to maintain operational efficiencies; to manage the investment portfolio by exiting investments at optimal valuations; and to successfully recapitalize the Bank."

Saeed Abdul Jalil Al Faheem
Chairman

Shareholders Equity

US$ 44.4m

Shareholders' Equity stood at US$ 44.4 million in 31 December 2019

Capital Adequacy Ratio

19.5%

IIB Capital adequacy ratio remained strong at 19.5% on 31 December 2019

On behalf of the Board of Directors of the International Investment Bank ("IIB"), I present the Consolidated Financial Statements for the year ended 31 December 2019.

2019 was a year of preparing for change, and with Shareholder approval on the Bank's conversion to Category 1 Islamic Investment Firm, we can forge ahead with clarity. Amidst economic uncertainty and sluggish global growth, the Bank maintained momentum; aligning its investment portfolio, people and processes with the new strategy.

The year witnessed a steadfast focus on preserving sufficient levels of liquidity and capital adequacy, maintaining operational efficiencies, and managing the investment portfolio by exiting investments at optimal valuations.

Despite a loss for fiscal year 2019, IIB is on the road to recovery, with liquid assets and capital adequacy remaining strong and total expenses substantially decreased.

We are building a solid base for sustainable success. In addition to effective liquidity management and alignment of the portfolio, intensive cost rationalization and organizational restructuring will ensure optimal efficiency and effectiveness of the Bank.

In 2020, the Bank's enhanced Corporate Governance and Risk Management framework will support a disciplined investment process. This will guide our approach to deal sourcing with an emphasis on building Assets Under Management (AUM) and enhancing recurring income from management fees.

Aligned with its strategy to become a leading Asset Specialist, the Bank is growing its capabilities and expertise in niche investment segments. In 2020, we plan to achieve this by partnering with select Asset Managers with deep knowledge and a proven track record of success.

The Bank is on track to achieve its vision. With healthy liquidity, a clear strategy and an experienced management team, we are realigning and strengthening the organisation in order to add shareholder and stakeholder value and drive socio-economic growth in the markets in which we operate and serve.

On behalf of the Board of Directors, I express thanks and appreciation to His Majesty the King of Bahrain, King Hamad bin Isa Al Khalifa; His Royal Highness the Prime Minister, Prince Khalifa bin Salman Al Khalifa; and His Royal Highness the Crown Prince and First Deputy Prime Minister, Prince Salman bin Hamad Al Khalifa for their wise leadership and continued support of the Islamic banking sector.

I also extend our sincere appreciation to our valued investors for their steadfast support, together with the Central Bank of Bahrain and the Ministry of Industry & Commerce for their advice and guidance. We also thank our Shari'ah Supervisory Board, management team and staff for their dedicated service.

Saeed AJ Al Fahim
Chairman

CORPORATE GOVERNANCE

The Board of Directors is responsible for the overall governance of the Bank through continuous review and adherence to international best practice and standards. The Board determines the Bank's strategy, provides direction to the Executive Management, ensures that the control framework is functioning in accordance with best practice and monitors Executive Management's performance.

BOARD OF DIRECTORS

The Board meets regularly throughout the year in order to control strategic, financial, operational, internal control and compliance issues.

As at 31 December 2019, the Board of Directors was comprised of six (6) Directors.

DIRECTORS' BIOGRAPHIES AND PROFESSIONAL QUALIFICATIONS

HE Mr. Saeed A J Al Faheem
Chairman

Non-Independent and Non-Executive Director

- Year of first appointment: 2004
- 30 + years of business experience
- Honorary Chairman: Al Fahim Group, UAE
- Chairman: Mubarak & Brothers Property & Financial Investment, UAE LLC
- Chairman: German Emirati Joint Council for Industry and Commerce (AHK), UAE
- President of Sh. Khalifa Excellence Award (SKEA), Abu Dhabi, UAE

Educational qualifications

- Bachelor of Business Administration, Bowling Green University, USA
- Honorary Doctorate in Business Administration, Shendi University, Sudan

Mr. Ahmed Salem Bugshan
Vice Chairman and Chairman of Board Nomination and Remuneration Committee

Independent Director

- Year of first appointment: 2004
- 25 + years of business experience
- Chief Executive Officer: Middle East & North Africa Beverages Manufacturing Co. (MENABEV), KSA
- Chairman: Saudi Steel Profile Mfg. Co. Ltd, KSA
- Chairman: Sidra CapitaL, KSA
- Chairman: Entertainment Innovation Co. Ltd, KSA

Educational qualifications:

- Bachelor of Business Administration with major in Economics and Administration, King Abdul Aziz University, Kingdom of Saudi Arabia

Dr. Abdulaziz Al-Terki
Board Member and Chairman of Board Audit and Corporate Governance Committee

Independent Director

- Year of first appointment: 2018
- 22 + years of business experience
- Executive Management: Burgan Bank Group
- Chief Executive Officer: Planning and Development Consultancy Center
- Member: Project Evaluation Committee of the Kuwaiti Industries Union
- Founding Member: Kuwait Strategic Planning Society

Educational qualifications:

- Bachelor of Business Administration from the University of Northern Colorado in the United States of America
- Master of Information Studies from Kuwait University
- PhD in Quality Management from the American University in the United Kingdom

Mr. Khaled Abdul Karim Al Fahim
Board Member

Independent Director

- Year of first appointment: 2017
- 15 + years of business experience
- Board Member: Alfahim
- Board Member: Blacklane, Berlin
- Chairman: UAE Triathlon Association
- Board Member: ENBD REIT

Educational qualifications:

- Bachelor of Science in Business Administration, American Intercontinental University in London
- Masters in Diplomacy, University of Westminster, London

Mr. Fareed Bader
Board Member

Independent Director

- Year of first appointment: 2011
- 25 + years of business experience
- Chairman: Bader Group of Companies, Kingdom of Bahrain
- Chairman: Angivest Ventures W.L.L., Kingdom of Bahrain
- Chairman: Gulf Membrane and Coating Industries, Kingdom of Bahrain
- Chairman: Greentech Environment International, Kingdom of Saudi Arabia

Educational qualifications:

- Bachelor of Civil Engineering, University of Wales, Swansea

Mr. Eshaq Ebrahim Eshaq
Board Member

Independent Director

- Year of first appointment: 2017
- 5 + years of business experience
- Director: Union Gulf Investment Company B.S.C. (c)
- Director: Eshaq Investment Company W.L.L.
- Chairman: African & Eastern (Bahrain) W.L.L.
- Director: Middle East Traders B.S.C. (c)

Educational qualifications:

- Bachelor of Science in Business Administration with a specialisation in Finance, American University, Washington DC, USA

BOARD OF DIRECTORS CONTINUED

Board Terms and Start Date of Current Term

With the exception of Dr. Abdulaziz AlTerki, who was appointed on 20 June 2018, all the current members of the Board of Directors were appointed on 11 May 2017. They hold their office for a term of three (3) years.

Induction, Orientation and Training of New Directors

The Chairman of the Board ensures that each newly appointed director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction process includes:

a. Meetings with senior management;
b. Visits to the Bank's facilities;
c. Presentations regarding strategic plans;
d. Significant financial, accounting and risk management issues;
e. Compliance programmes;
f. Meetings with internal and external auditors and legal counsel (as required); and
g. Familiarisation with Corporate Governance Guidelines.

Written Code of Ethics and Business Conduct

The Bank has documented a Code of Conduct, including a code applicable to the Directors.

The aforementioned documents are available with the management and can be provided to the shareholders on request.

Bank's Code of Ethical Business Conduct

The Board establishes corporate values for itself, senior management, and employees. These values have been communicated throughout the Bank, so that the Board and senior management and staff understand their accountabilities to the various stakeholders and fulfill their fiduciary responsibilities to them.

Bank's ethics dictate that a Board Member should:

1. Not enter competition with the Bank;
2. Not demand or accept substantial gifts for himself or his associates;
3. Not take advantage of business opportunities to which the Bank is entitled for himself or his associates;
4. Report to the Board any conflict of interest in their activities with, and commitments to other organisations. In any case, all Board Members declare in writing all of their other interest in other enterprises or activities (whether as a shareholder, manager, or other form of participation) to the Board (or the Board Audit and Corporate Governance Committee) on an annual basis;
5. Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advice, or which involves a subject or proposed transaction where a conflict of interest exists; and
6. Ensure, collectively with the Board, that systems are in place to ensure that necessary client confidentiality is maintained and the privacy of the organisation itself is not violated, and that clients' rights and assets are properly safeguarded.

During 2019, there have not been any cases of conflict of interest in the Bank.

Election System of Directors

The new members are inducted to the Board of Directors through a nomination process on a three-year renewable term. The new members are nominated by the Board, and then later approved by the General Assembly Meeting of the Bank. The Central Bank of Bahrain then approves the nominations for their term.

Monitoring Compliance to and Enforcement of Code of Conduct

The matters covered in the Code of Conduct are of the utmost importance to the Bank, its stakeholders and its business partners and are essential to the Bank's ability to conduct its business in accordance with its stated values. The Bank clearly communicates to all of its employees that they are expected to adhere to these rules in carrying out their duties for the Bank.

The Board, through independent evaluators (i.e. Internal Auditor) and Senior Management, continuously monitor adherence to the set Code of Conduct and take appropriate action against any employee whose actions are found to violate these policies or any other policies of the Bank. Disciplinary actions may include immediate termination of employment or business relationship at the Bank's sole discretion. Employees are prohibited from participating in or concealing criminal activity or illegal behavior. Any incidence of non-compliance will be presented to the Board as soon as possible.

Material Transactions that Require Board Approval

They include all transactions above the threshold determined (as per the discretionary transaction limits) in the nature of non-capital business expenditure, capital expenditure, investment due diligence, investment acquisition and disposal, and marabaha/wakala placement and rollover.

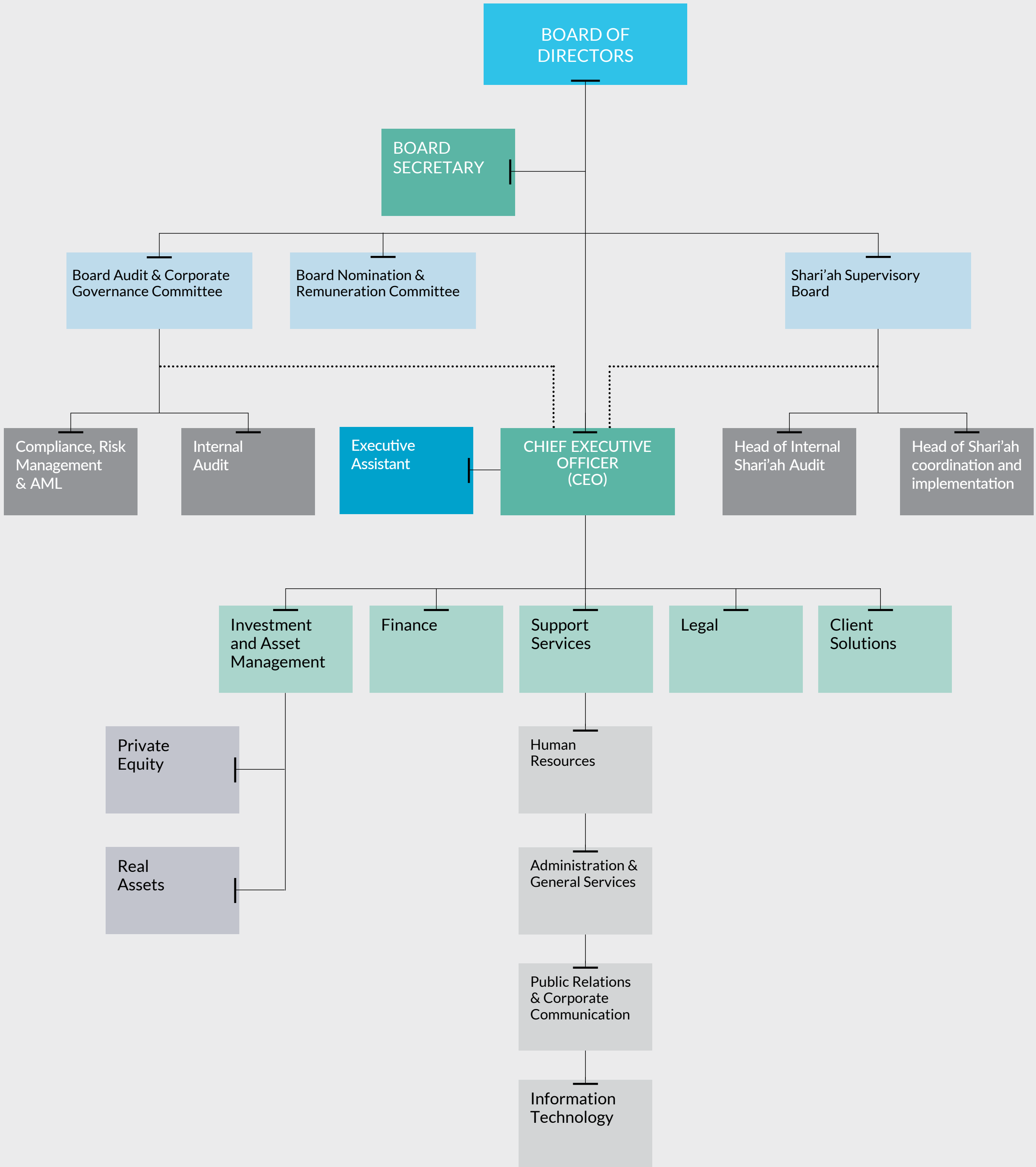
Assessment of Directors

The Board of Directors, its committees and individual directors annually assess their effectiveness and contributions.

Conflict of Interest

Annual Disclaimers of potential conflict of interest have been circulated to the Board of Directors and senior management. Should any conflict of interest arise, the concerned member of the Board of Directors or senior management will declare his interest in the matter under discussion and will absent himself from any vote on the matter.

ORGANISATIONAL STRUCTURE



CORPORATE GOVERNANCE CONTINUED

The Board of Directors

The Board of Directors are required to meet at least four times a year, either in person, or via teleconference or video conference. The Board met five (5) times during the year and the following table shows the dates and attendance details:

Date & location of meeting	Names of Directors present	Names of Directors who joined by phone /video link	Names of Directors not present
27-02-2019 Held by Teleconference	-	1. HE Mr. Saeed A J Al Faheem 2. Mr. Ahmed Salem Bugshan 3. Mr. Fareed Bader 4. Mr. Khaled Abdul Karim Al Fahim 5. Mr. Eshaq Ebrahim Eshaq 6. Dr . Abdulaziz Al-Terki	-
09-05-2019 Held by Teleconference	-	1. HE Mr. Saeed A J Al Faheem 2. Mr. Fareed Bader 3. Mr. Khaled Abdul Karim Al Fahim 4. Mr. Eshaq Ebrahim Eshaq	1. Mr. Ahmed Salem Bugshan 2. Dr. Abdulaziz Al-Terki
27-05-2019 Held by Teleconference	-	1. HE Mr. Saeed A J Al Faheem 2. Mr. Fareed Bader 3. Mr. Khaled Abdul Karim Al Fahim 4. Mr. Eshaq Ebrahim Eshaq 5. Dr . Abdulaziz Al-Terki	1. Mr. Ahmed Salem Bugshan
16-10-2019 Manama, Kingdom of Bahrain	1. HE Mr. Saeed A J Al Faheem 2. Mr. Khaled Abdul Karim Al Fahim 3. Mr. Eshaq Ebrahim Eshaq 4. Dr. Abdulaziz Al-Terki	-	1. Mr. Ahmed Salem Bugshan 2. Mr. Fareed Bader
15-12-2019 Manama Kingdom of Bahrain	1. HE Mr. Saeed A J Al Faheem 2. Mr. Khaled Abdul Karim Al Fahim 3. Mr. Fareed Bader 4. Mr. Eshaq Ebrahim Eshaq 5. Dr. Abdulaziz Al-Terki	-	1. Mr. Ahmed Salem Bugshan

Compliance with CBB's High-Level Controls Module requirements

The Bank regularly monitors compliance with the provisions of the High-Level Controls (HC) Module of the Rulebook issued by the Central Bank of Bahrain relating to the roles and responsibilities of the Board of Directors, Board Committees, Disclosure Requirements and Management Strategy. The Comply or Explain Principle Report was revised to include CBB's amendments during 2019 and accordingly, the Bank has complied with the HC module requirements except for the following:

Reference	HC Module Provisions / Terms	Requirements	Complied With? (Yes/No)	Explanations
HC-1		THE BOARD		
HC-1.1.1	P	PRINCIPLE 1 - ALL BAHRAINI ISLAMIC BANK LICENSEES MUST BE HEADED BY AN EFFECTIVE, COLLEGIAL AND INFORMED BOARD OF DIRECTORS ("THE BOARD").		
HC-1.3		Decision Making Process		
HC-1.3.4	R	Individual Board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. Voting and attendance proxies for Board meetings are prohibited at all times.	No	One Director failed to meet the CBB's 75% minimum attendance requirement.
HC-1.4		Independence of Judgment		
HC-1.4.6	G	The chairman of the Board should be an independent director, so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.	No	Because the Chairman represents Alfahim who owns more than 5% of shares in the Bank's capital. This is disclosed in the Annual Report.
HC-6		MANAGEMENT STRUCTURE		
HC-6.1.1	P	PRINCIPLE 6 - THE BOARD MUST ESTABLISH A CLEAR AND EFFICIENT MANAGEMENT STRUCTURE.		
HC-6.3		Titles, Authorities, Duties and Reporting Responsibilities		
HC-6.3.5	G	At least annually the Board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.	No	Will be finalised once the conversion process to Islamic Investment Business firm is complete.
HC-6.4		Compliance		
HC-6.4.12	R	The Board and the designated Board committee must ensure that all compliance findings and recommendations are resolved within six months for high risk/critical issues and 9 months for any other issues from the issue date of the subject compliance report unless otherwise agreed with the CBB taking into consideration time required for specific issues that may require substantive changes to technology, systems and/or processes.	No	Four (4) high-risk observations remain outstanding, however, as some of these matters were outside Management's control, re-scheduled dates were agreed with the internal auditor.

CORPORATE GOVERNANCE CONTINUED

Reference	HC Module Provisions / Terms	Requirements	Complied With? (Yes/No)	Explanations
HC-6.6		Risk Management		
HC-6.6.14	R	Further to HC-1.8.1, all Bahraini Islamic bank licensees must establish a board risk committee composed of at least three independent directors. Such board risk committee must be responsible for supporting the board in its oversight and decisions related to the bank's risk management framework.	No	The Risk Management Department reports to the Board Audit & Corporate Governance Committee ("BACGC"), that has all the Board Risk Committee ("BRC") duties. IIB was granted CBB approval to defer the requirement to establish a BRC until 31 May 2020.
HC-6.6.15	R	The risk committee must meet the following requirements:		
HC-6.6.15	R	(b) include a majority of members who are independent of day to day risk taking activities;	No	As above. This shall be considered at the time of establishment of a BRC.
HC-6.6.15	R	(c) include members who have experience in risk management issues and practices;	No	As above. This shall be considered at the time of establishment of a BRC.
HC-6.6.15	R	(d) develop a committee charter which among other matters include its role in the discussions of risk strategies, both at an aggregated basis and by type of risk and make recommendations to the board thereon, and on the risk appetite and risk limits;	No	As above. This shall be considered at the time of establishment of a BRC.
HC-7		COMMUNICATION BETWEEN BOARD AND SHAREHOLDERS		
HC-7.1.1	P	PRINCIPLE 7 - THE ISLAMIC BANK LICENSEE MUST COMMUNICATE WITH SHAREHOLDERS, ENCOURAGE THEIR PARTICIPATION, AND RESPECT THEIR RIGHTS.		
HC-7.2		Conduct of Shareholders' Meetings		
HC-7.2.2	G	The Bahraini Islamic bank licensee should require all directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, remuneration and nominating committees are ready to answer appropriate questions regarding matters within their committee's responsibility (it being understood that confidential and proprietary business information may be kept confidential).	No	Board Members were available for and attended the Bank's Annual General Assembly Meeting, however, were unavailable for the re-scheduled Extraordinary General Assembly, and given that no shareholders were going to be present and no questions/objections were posed, it was agreed that the CEO would chair the meeting, as is allowed by the Bahrain Commercial Companies Law.

Directors' responsibility for Audited, Consolidated, Financial Statements (AFS)

The Board is responsible for the Audited Consolidated Financial Statements (AFS), which accurately disclose the Bank's financial position. The Board has delegated the responsibility of the preparation of accurate financial statements to the Board Audit and Corporate Governance Committee. In addition, the Bank has instituted appropriate systems and controls, including internal audit, to ensure regular financial reporting, disclosures and monitoring.

Board Committees

The Board has established two sub-committees and a Shari'ah Supervisory Board, comprising expert independent Shari'ah scholars to assist the Board in expeditiously and effectively discharging its responsibilities. This committee structure ensures appropriate oversight by the Board of Directors, while permitting efficient day-to-day management of the Bank. The minimum number of meetings for Board sub- committees is four (4) per annum, except for the Board Nomination and Remuneration Committee, which has a minimum of two (2) meetings per annum.

The members as at 31 December 2019 and summary terms of reference were as follows:

Board Audit and Corporate Governance Committee

Dr. Abdulaziz AlTerki, Chairman

Mr. Khaled Al Fahim, Member

Mr. Eshaq Eshaq, Member

Sheikh Abdul Nasser Al Mahmood, Shari'ah Supervisory Board Representative

Assists the Board in reviewing the integrity of the financial statements, compliance with legal and regulatory requirements, the Bank's internal audit function and the independent auditor's qualifications, independence and performance.

The Board Audit and Corporate Governance Committee is required to meet at least four (4) times a year. The Members met four times in 2019. The following table shows dates and attendance details of the Board Audit and Corporate Governance Committee meetings during the year.

Board Audit and Corporate Governance Committee meetings

Date & location of meeting	Names of Directors present	Names of Directors who joined by phone /video link	Names of Directors not present
13-02-2019 Held by Teleconference	-	1. Dr . Abdulaziz Al-Terki 2. Mr. Eshaq Ebrahim Eshaq	1. Mr. Khaled Abdul Karim Al Fahim
26-02-2019 Manama, Kingdom of Bahrain	1. Dr. Abdulaziz Al-Terki 2. Mr. Khaled Abdul Karim Al Fahim 3. Mr. Eshaq Ebrahim Eshaq	-	-
02-05-2019 Manama, Kingdom of Bahrain	1. Dr. Abdulaziz Al-Terki 2. Mr. Khaled Abdul Karim Al Fahim 3. Mr. Eshaq Ebrahim Eshaq	-	-
21-10-2019 Held by Teleconference	-	1. Dr. Abdulaziz Al-Terki 2. Mr. Eshaq Ebrahim Eshaq	1. Mr. Khaled Abdul Karim Al Fahim

Board Nomination and Remuneration Committee

Mr. Ahmed Salem Bugshan, Chairman

Mr. Khaled Abdul Karim Al Fahim, Member

Mr. Eshaq Ebrahim Eshaq, Member

Assists the Board in assessing candidates and recommending Board and management appointments, as well as to establish and update the remuneration policies and procedures including the level of remuneration paid to executive management.

The Board Nomination and Remuneration Committee is required to meet at least twice a year. The Members met twice in 2019 and the following table shows the dates and attendance details:

Board Nomination and Remuneration Committee Meetings

Date & location of meeting	Names of Directors present	Names of Directors who joined by phone /video link	Names of Directors Not Present
23-07-2019 Held by Teleconference	-	1. Mr. Khaled Abdul Karim Al Fahim 2. Mr. Eshaq Ebrahim Eshaq	1. Mr. Ahmed Salem Bugshan
15-12-2019 Manama Kingdom of Bahrain	1. Mr. Khaled Abdul Karim Al Fahim	1. Mr. Eshaq Ebrahim Eshaq	1. Mr. Ahmed Salem Bugshan

CORPORATE GOVERNANCE CONTINUED

Independent Shari'ah Supervisory Board

Being an Islamic Bank, IIB's Shari'ah Supervisory Board regularly reviews all investment products and business activities to ensure compliance with Islamic Shari'ah principles, approves the Bank's financial statements and participates with management in the development of suitable investment products and services. IIB's Shari'ah Supervisory Board comprises three prominent Bahraini Islamic scholars who provide the Bank with pragmatic Islamic opinions.

Brief biographies are as follows:

Sheikh Doctor Nedham Yaqoobi

Sh. Dr. Nedham Yaqoobi is one of the leading scholars in the Islamic Finance segment. Also, he is a member of many local and international Islamic Supervisory Boards of institutions, including the Centralized Shari'ah Supervisory Board at the Central Bank of Bahrain, AAOIFI Shari'ah Council, and many more. During his flourishing carrier, he has earned many academic honorary certificates, awards and degrees.

Sheikh Doctor Osama Bahar

Sh. Dr. Osama Bahar holds a Doctorate from Lahaye University in the Netherlands, a Master's Degree from Al Emam Al Awzae University in Lebanon and a Bachelor's degree in Islamic Shari'ah from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria. Currently, he is a Shari'ah member at First Energy Bank. Also, he is a Shari'ah advisor for the Global Banking Corporation, Ithmaar Bank, Alizz Islamic Bank (Oman) and Bahrain Bourse.

Sheikh Abdul Nasser Al Mahmood

Sh. Abdul Nasser is a member of the Islamic Supervisory Board of International Investment Bank, Ebdaa Bank, Eskan Bank, and Bahrain Development Bank. Also, he works as an Executive Manager in the Shari'ah Coordination and Implementation department at Khaleeji Commercial Bank. He holds a Master's in Business Administration from the Gulf University and is working on a thesis in Shari'ah Control and Review in Islamic banks. He also holds a Bachelor's degree in Shari'ah and Islamic Studies from Qatar University and an Advanced Diploma in Islamic Commercial Jurisprudence from Bahrain Institution of Banking Finance.

Investments

The Investment Department is responsible for investment and business development activities including origination, evaluation, structuring and execution of investments and obtaining the required internal and regulatory approvals for real estate, private equity, quoted equity and fixed income investments. The department also manages portfolio companies and exits investments. It develops investments and asset allocation strategies and policies and undertakes due diligence and documentation in conjunction with consultants, partners, accounting firms and law firms.

The Investment Department works closely with the Legal, Risk, Shari'ah and Compliance departments to ensure controls and policies are complied with in the execution and management of investments. In addition, the department is responsible for investor reporting.

Client Solutions

The department is responsible for advising investors and placing IIB's investment offerings with sophisticated investors. Whilst mandated with the responsibility of maximising investment placement, the department ensures that every investment placed with investors is consistent with the investment objectives and risk tolerance of those investors. Moreover, in order to achieve best practice governance within the framework of the ethical and regulatory requirements of the Central Bank of Bahrain, investments are placed with only those investors who have provided the detailed "Know Your Customer" (KYC) documents and have complied with all legal formalities associated with the placement of each investment.

Support, Administration & Internal Controls

The business departments and executive management of the Bank are supported by a network of well- structured and staffed departments, as follows:

- Financial Control Department, including Treasury
- Legal Department
- Compliance, Risk Management and AML Department
- Internal Audit Department
- Support Services, including Human Resources, Administration, Information Technology and Corporate Communications Department

Bank's operations and transactions are subjected to commensurate controls, checks and balances and segregation of duties to ensure that each transaction is originated, approved, executed and accounted for in conformity with, not only Shari'ah standards, but also best practice.

For example, to ensure strong segregation of duties, the Bank's operations are structured to ensure that no employee can originate, execute and account for a transaction. At least two individuals are involved in each transaction, including two signatories on every funds transfer. Each transfer is approved and executed in accordance with "Levels of Authority" approved by the Board of Directors.

Department Heads report to the Chief Executive Officer. There are two exceptions to ensure objectivity and independence from Executive Management: the Head of Compliance and Risk Management Department and the Head of Internal Audit Department report to the Chairman of the Audit & Corporate Governance Committee with an administrative reporting to the Chief Executive Officer. The duties of all staff are clearly defined in detailed job descriptions which are reviewed from time to time to ensure conformity with the current requirements of the business.

Being an Islamic bank, IIB must ensure that all its activities are in compliance with Shari'ah principles. Compliance is achieved through the adoption of policies and procedures that are Shari'ah compliant and through regular discussions with members of the Shari'ah Supervisory Board who review the documentation relating to the Bank's transactions. Consultants perform regular reviews of the Bank's activities and have confirmed that the Bank is Shari'ah compliant.

Compensation & Incentive Structures

The Directors may recommend for themselves an annual retainer fee that is approved at the subsequent Annual General Meeting. Plus reimbursement of their travel and accommodation expenses in connection with attending Board meetings. The members of the Shari'ah Supervisory Board receive a flat fee that the Board of Directors approves annually, and a fee for each meeting attended and reimbursement of their actual travel and accommodation expense. The Remuneration Committee and the Chief Executive Officer agree the annual salaries of all other employees. All staff are eligible to participate in the discretionary annual bonus pool which is awarded on the basis of achievement of both corporate and individual goals.

Other benefits are payable to employees in line with normal industry practice and are approved in aggregate by the Board of Directors.

An allocation for a staff stock option scheme was approved by the General Assembly. The scheme is yet to be implemented.

Executive Management Management Committees

The Board has established five governance committees, namely the Management Committee, Management Investment Committee, Assets & Liabilities Committee, and Risk Management Committee. These committees comprise senior management and heads of departments who are best qualified to make decisions on issues such as funding, asset utilisation, IT, investment purchase/sale, and management of all types of risks, including market, credit, liquidity and operational risks. The members as at 31 December 2019 and the summary terms of reference are as follows:

Management Committees

Executive Management Committee

Mr. Suhail Hajee, Chairman

Mr. Michael Ross-McCall (resigned September 2019)

Ms. Mai Abul

Mr. Alaa Buhusain (resigned May 2019)

Ms. Sawsan Al Ansari

Mr. Augustine Peter (appointed September 2019)

Mr. Naif Sahwan (appointed September 2019)

Mr. Murtaza Ghulam (appointed May 2019)

Monitors the execution of the strategic business plan, provides a forum to assimilate viewpoints, adopt best practices in the management of the Bank and provides guidelines to carry out the day-to-day affairs of the Bank, within the overall approved procedures laid down by the Board.

Management Investment Committee

Mr. Suhail Hajee, Chairman

Mr. Alaa Buhusain (resigned May 2019)

Mr. Murtaza Ghulam

Ms. Khatoon Ahmed

Manages the investment portfolio, makes recommendations on proposed investments, exits and approves the final share allocation to investors.

Assets & Liabilities Committee

Mr. Alaa Buhusain, Chairman (resigned May 2019)

Mr. Murtaza Ghulam, Chairman (appointed May 2019)

Mr. Rehan Zulqadar Rashid (resigned December 2019)

Mr. Michael Ross-McCall (resigned September 2019)

Ms. Arwa Al Sharaf (appointed December 2019)

Mr. Augustine Peter (appointed September 2019)

Mr. Naif Sahwan (appointed September 2019)

Ms. Haleema Ebrahim

Manages liquidity, the profit rate risk inherent in the Bank's asset and liability portfolio, and capital adequacy, and ensures the mix of assets and liabilities is appropriate.

Risk Management Committee

Mr. Rehan Zulqadar Rashid, Chairman (resigned December 2019)

Ms. Arwa Al Sharaf, Chairwoman (appointed December 2019)

Mr. Michael Ross-McCall (resigned September 2019)

Mr. Alaa Buhusain (resigned May 2019)

Mr. Murtaza Ghulam

Mr. Augustine Peter (appointed September 2019)

Mr. Naif Sahwan (appointed September 2019)

Ms. Mariam Al Haji

Performs a risk review of new business deals to be underwritten by IIB, performs a review of existing business deals underwritten by IIB, and monitors all types of risks faced by IIB including market, credit and operational risks.

Senior Management

Mr. Suhail Mohamed Hajee, Chief Executive Officer

Joined the Bank on 25 November 2018, Mr. Hajee has more than 30 years of banking and investment experience. Prior to joining the Bank, Suhail worked as Executive Director for Arqaam Capital in Dubai, also served in senior management positions at Bank of Bahrain and Kuwait in Bahrain and Dubai and serves as board member of a number of other firms.

Mr. Hajee holds an MBA from McGill University, Montreal and Bachelor of Computer Engineering from Concordia University, Montreal.

Mr. Michael Ross-McCall, Chief Financial Officer

Mr. Ross-McCall held the position until 17 September 2019. Mr. Ross-McCall has 44 years of experience in banking sector. Prior to joining the Bank, Michael worked for Bahraini Saudi Bank, Bahrain and Saad Group, Dammam.

Mr. Ross-McCall holds a Bachelor of Laws and Member of The Institute of Chartered Accountants of Scotland.

CORPORATE GOVERNANCE CONTINUED

Mrs. Sawsan Al-Ansari, Head of Support Services

Joined the Bank on 01 June 2009, Mrs. Al-Ansari has 39 years of experience in finance and banking sector. Prior to joining the Bank, Sawsan worked for United Gulf Bank and American Express, Bahrain.

Mrs. Al-Ansari a Diploma degree in civil engineering from Gulf Technical College of Bahrain and a Bachelor of Fine Arts from the Fine Arts College of Zamalek, Egypt.

Mrs. Mai Abul, Chief Legal Officer and Board Secretary

Joined the Bank on 22 November 2015, Mrs. Abul has 11 years of experience in Islamic banking and finance transactions. Prior to joining the Bank, Mai worked for Bahrain Mumtalakat Holding Company B.S.C. © and Al Salam Bank, Bahrain.

Mrs. Abul holds Bachelor and Master's degrees in Business Law from Monash University, Melbourne, Australia.

Mr. Alaa Buhusain, Head of Direct Investment

Mr. Buhusain held the position until 07 May 2019. Mr. Buhusain has 20 years of experience in Investment banking. Prior to joining the Bank, Alaa worked for Itqan Capital and Waha Capital.

Mr. Buhusain is a CFA charter holder since 2003 and a founding member of the Bahrain CFA Society. BA in Economics and Social Studies, specializing in Accounting and Finance from the University of Manchester, UK and MBA specializing in Finance from Manchester Business School, UK.

Mr. Rehan Zulqadar Rashid, Head of Risk Management & Deputy MLRO

Mr. Rashid held the position until 23 December 2019. Mr. Rashid has over 19 years of experience in the field of risk management, compliance, and internal & external audits. Prior to joining the Bank, Rehan worked for Ibdar Bank, Ernst & Young & PricewaterhouseCoopers.

Mr. Rashid holds a Bachelor's of Commerce degree from the University of Punjab, Pakistan and is a certified Operational Risk Manager, an Associate Professional Risk Manager and a Certified Anti-Money Laundering Specialist.

Ms. Arwa Al Sharaf, Head of Compliance, Risk Management (Acting) and MLRO

Joined the Bank on 10 April 2016, Ms. Al Sharaf has over 14 years of experience in banking. Prior to joining the Bank, Arwa worked with Seera Investment Bank B.S.C. (c) and CITI Bank, Bahrain.

Ms. Al Sharaf holds a Bachelor's of Science degree in Banking and Finance from University of Bahrain and an International Diploma in Compliance from the International Compliance Association, Manchester, UK.

Mr. Augustine Peter, Director – Finance Department

Joined the Bank on 01 December 2007, Mr. Peter has over 31 years of experience in various areas like investment banking, financial services, financial planning, accounting and auditing. Prior to joining the Bank, Augustine worked with Al Ahlia Securties and Bahrain Financial Harbour Holding Co.

Mr. Peter holds a Bachelor's of Chemistry degree from University of Calicut, Kerala, India and qualified as Chartered Accountant from the Institute of Chartered Accountants of India.

Mr. Naif Sahwan, Director – Finance Department

Joined the Bank on 15 September 2019, Mr. Sahwan has over 20 years of experience in banking and finance. Prior to joining the Bank, Naif worked with Seera Investment Bank and First Leasing Bank.

Mr. Sahwan holds a Master's degree from the Manchester Business School and is a fellow of the Chartered Institute of Management Accountants, UK.

Mr. Mahmood Al Qassab, Head of Shari'ah Coordination and Implementation

Joined the Bank on 01 November 2007, Mr. Al Qassab has 13 years of experience in Islamic banking.

Mr. Al Qassab holds a Master's in Business Administration with concentration in Islamic Finance, University College of Bahrain, Bachelor's degree in Information Technology (Computer Science), Birla Institute of Technology, Certified Shari'ah Advisor & Auditor, AAOIFI , Advanced Diploma in Islamic Commercial Jurisprudence, BIBF and Shari'ah Reviewer Development Programme.

Mr. Murtadha Ghulam, Principal - Investment

Joined the Bank on 12 October 2005, Mr. Ghulam has 13 years of experience in Islamic banking. Prior to joining the Bank, Murtadha worked for Alkhaeej Development Company and Alinam Real Estate Investments.

Mr. Ghulam holds Bachelor's degree in Accounting and Finance from University of Bahrain

Mr. Omar Khalifa Shaheen, Manager of Client Solutions

Joined the Bank on 01 September 2008, Mr. Shaheen has over 21 years of experience in business and marketing. Prior to joining the Bank, Omar worked for Reuters, UK and Middle East, Al Hilal Group, UAE

Mr. Shaheen holds Bachelor's degree in Media Arts and Business Administration, Westminster, UK.

Charitable Contributions

The Bank made Nil contributions and donations to Bahraini charities in 2019.

Non-Shari'ah Income

Any income derived from any investment or business that does not conform to Shari'ah principles is considered to be Non-Shari'ah income arising in the course of the business. It is donated through charitable organisations.

For the year 2019, there was no Non-Shari'ah income for the Bank.

Review of Internal Control Process and Procedures

The Board is fully aware that the system of internal control cannot eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an on-going process of managing significant risks faced by the Bank and reviewing the system of internal control for the year under review. The key elements are described below:

- Formal organisation structure that clearly defines the framework for the line of reporting and hierarchy of authority
- Policies and Procedures Manual on key activities that lay down the objective, scope, policies and operating procedures for the Bank, which are subject to regular review and improvement
- Regular internal audit visits to departments within the Bank to ensure compliance with the Bank's Policies and Procedures, and to review effectiveness of internal control systems
- Clearly defined authorisation limits at appropriate levels are set out for controlling and approving capital expenditure and expenses
- Regular Senior Management meetings are held to discuss and resolve major issues arising from business operations
- Quarterly meetings for the Audit & Corporate Governance Committee and the Board are held to discuss internal audit reports, periodic financial statements and issues that warrant Audit and Corporate Governance Committee and Board attention; in respect of risk management framework, a Risk Management Committee was established, to evaluate, monitor and manage the risks that may impede the achievements of the Bank's business objectives

Minor internal control weaknesses were identified during the year of review. None of the weaknesses have resulted in any material losses, contingencies or uncertainties.

Nature and approval process of related party transactions

The balance with related parties mainly comprises investments in associates. Associates are the companies where the Bank holds 20% or more of the share capital by way of direct investment or investment through Special Purpose Vehicles in its ordinary course of business.

Such investments also go through the same approval processes as required for all investments of the Bank.

Transactions with related parties in 2019 (included in Note 18 of the consolidated financial statements) mainly comprise of share of loss from associates and remuneration paid to the Shari'ah Supervisory Board.

Departmental Structure (as at 31 December 2019)

EXECUTIVE MANAGEMENT	
Suhail Hajee	Chief Executive Officer
INVESTMENT	
Murtadha Ghulam	Principal
FINANCE	
Augustine Peter	Director
Naif Sahwan	Director
COMPLIANCE, RISK MANAGEMENT & AML	
Arwa Al Sharaf	Head
LEGAL	
Mai Abdulaziz Abul	Chief Legal Officer and Board Secretary
SUPPORT SERVICES	
Sawsan Al-Ansari	Head
INFORMATION TECHNOLOGY	
Sayed Hussein Mahdi	IT Manager
CLIENT SOLUTIONS	
Omar Shaheen	Principal
SHARI'AH COORDINATION AND IMPLEMENTATION	
Mahmood Al-Qassab	Head
INTERNAL AUDIT (outsourced)	

CORPORATE GOVERNANCE CONTINUED

Ownership Details of the Bank

The following table shows the distribution of ownership of the Bank by nationalities as on the reporting date.

Country	Number of shareholders	Number of shares	Percentage
Kingdom of Bahrain	7	2,406,158	2.19%
State of Kuwait	39	16,452,201	14.96%
State of Qatar	11	6,931,862	6.30%
Kingdom of Saudi Arabia	34	28,882,213	26.26%
United Arab Emirates	19	52,323,363	47.57%
Total	110	106,995,797	97.28%
Treasury shares	1	3,000,000	2.72%
Overall Total	111	109,995,797	100.00%

The following table shows the distribution of ownership by directors and senior managers of the bank as on the reporting date.

Name	Position	Number of shares	Percentage
Mr. Saeed A J Al Faheem	Chairman	26,374,704	23.98%
Mr. Ahmed Salem Bugshan	Board Member	3,908,404	3.55%
Mr. Fareed Bader	Board Member	350,000	0.32%
Mr. Eshaq Ebrahim Eshaq	Board Member	0	0%
Mr. Khaled Abdul Karim Al Fahim	Board Member	0	0%
Dr. Abdulaziz Al Terki	Board Member	0	0%

The following table shows the distribution of ownership by size of shareholding in the Bank as on the reporting date.

Shareholding size	Number of shareholders	Number of shares	Percentage
Above 5% ownership	1	26,374,704	23.98%
Less than 5% ownership	110	83,621,093	76.02%
Total	111	109,995,797	100.00%

There was no trading in the Bank's shares by directors and senior managers of the Bank during the year. There are no shareholdings in the Bank by the Bahrain Government or any other Governments.

Remuneration of Board Members

Except for sitting fees an amount of US$ 47,000 for attending meetings, no remuneration was paid to Board members for the year 2019.

Remuneration of Shari'ah Supervisory Board Members

The remuneration paid to Shari'ah Supervisory Board Members for the year 2019 was US$ 81,000 (2018: US$ 89,500).

Fees paid to External Auditors

Information relating to the fee paid to external auditors for audit and non-audit services including quarterly review of prudential returns and public disclosures reviews are maintained at the Bank. This information is available to shareholders on request.

Fines paid to regulator

During the year 2019, the Bank did not pay any penalties.

Communications Strategy

A summary of the Bank's quarterly and annual financial statements is published in local and regional newspapers. The Bank maintains a website, www.iib-bahrain.com which contains the last ten years of annual financial data, together with summary financial data covering the interim quarterly financial statements.

It also contains a profile of the Bank, details of the principal products and services, profiles of the Board of Directors, senior managements and regular press releases concerning investment transactions and other developments.

Inquiries are made to the relevant departments by email to: info@iib-bahrain.com

Client Enquiries and Complaints

The Bank has assigned a designated team in Client Solutions to maintain a log of client queries/complaints. A brief of client inquiry/ complaint is prepared and forwarded to the concerned Investment Manager, who prepares a draft response. It is then forwarded to the Chief Investment Officer who approves the response, which is then forwarded to the client. An entry is made in the log of queries / complaints to record the Bank's response.

Client Inquiries are made to the relevant department by email to: client@iib-bahrain.com

Additional Governance Controls

The Board has approved a number of policies, which are communicated to management and all staff. These cover subjects including risk management, anti-money laundering, ethical behaviours, personal conduct, financial control, human resources and business continuity.

Corporate governance is also supported by the ongoing reviews performed by the Internal Audit Department and the External Auditors. The reviews confirm that the policies and internal control procedures conform to best practice and are being fully complied with by management and staff.

CHIEF EXECUTIVE OFFICER'S MESSAGE

"IIB achieved three exits during the year, namely the Bank's holding in Bayview Tower in Bahrain, its investment in IIB Abu Dhabi Limited 1 and its investment in IIB France Investments Holding Company. The exits generated net cash proceeds to the Bank and enhanced the liquidity position of IIB. Other exits are actively being pursued for completion in 2020."

Suhail Mohamed Hajee
Chief Executive Officer

Total Liquid Assets

US$ 17.0m

Total liquid assets at year-end 2019 were US$ 17.0 million.

Total Investments

US$ 33.6m

Total investments at year-end 2019 aggregated to US$ 33.6 million.

Exit Activity

US$ 127.7m

IIB successfully achieved three exits valued at US$ 127.7 million.

2019 witnessed a steadfast focus on enhancing the effectiveness and efficiency of International Investment Bank (IIB) as we continue to lay the foundation from which to achieve sustainable growth. During the year, the Bank navigated a challenging economic climate. Global growth, impacted by economic policy uncertainty, escalation of trade disputes and protectionism, as well as increasing climate risks, recorded its weakest pace since the global financial crisis.

However, against this less than ideal backdrop, IIB made significant progress towards the path to profit. Shareholders approved the conversion of the Bank to Category 1 Islamic Investment Firm which will serve to focus IIB efforts as we implement the new strategy. Aligned with this, IIB successfully exited a number of legacy assets that are no longer part of the strategy's targeted core geographical areas.

Groundwork for future success also included a bank wide cost rationalization campaign which achieved an impressive operational cost reduction of 33.0% . An organisational restructuring initiative, which witnessed the consolidation of some departments was also implemented. This effectively aligns human capital with the new strategy and ensures best utilization of resource.

Governance continues to be a top priority for IIB and as such a comprehensive review of IIB's policies and procedures was undertaken and enforced in efforts to support the advancement of key strategies - an initiative that should start showing positive results in 2020.

FINANCIAL REVIEW

The loss in 2019 of US$ 19.0 million includes significant non-cash expenses of US$ 16.0 million relating to fair value and impairment charges against the investment portfolio. Despite the loss for the year, IIB's balance sheet has no debt and no off-balance sheet exposures. Total expenses decreased in 2019 to US$ 4.9 million compared to US$ 7.3 million in 2018, highlighting the Bank's successful cost rationalization efforts. Total liquid assets at year-end 2019 were US$ 17.0 million, representing 37.0% of total assets and the capital adequacy ratio at 31 December 2019 was 19.50% versus the minimum regulatory requirement of 12.50%.

OPERATIONAL REVIEW

Total investments at year-end 2019 aggregated to US$ 33.6 million and are valued using valuations from external experts where applicable.

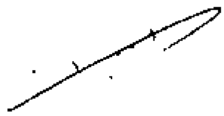
During 2019, IIB booked impairment and fair value charges of US$ 16.0 million of which US$ 8.6 million were against real estate and US$ 7.4 million were against diversified private equity investments. Fair value provisions and impairment charges are booked in accordance with the relevant accounting standards.

IIB achieved three exits during the year, namely the Bank's holding in Bayview Tower in Bahrain, its investment in IIB Abu Dhabi Limited 1 and its investment in IIB France Investments Company. The exits generated net cash proceeds to the Bank and enhanced the liquidity position of IIB. Other exits are actively being pursued for completion in 2020.

THE YEAR AHEAD: 2020

The new decade heralds a new era for IIB and, although the year ahead brings uncertainty, with environmental and health epidemics projected to impact the global economy, IIB remains cautiously optimistic. The conversion of the Bank to Category 1 Islamic Investment Firm will be finalized in coordination with the Central Bank of Bahrain, and non-core assets will be divested. The investment engine will start as we source new deals within the sectors that are identified in our new strategy. Enhancement of Assets Under Management (AUM) will support efficiency, generate sustainable revenues and attract new talents, and a rebranding exercise will help the Bank regain clarity, reaffirm values and re-establish the solid foundation from which IIB was built.

On behalf of the Bank, I take this opportunity to express my sincere appreciation for, the unwavering confidence and support of our Shareholders and Board of Directors, the withstanding loyalty of our clients, and the continued cooperation of our business partners. We are grateful for the ongoing support, advice and guidance the Bank receives from the Central Bank of Bahrain, and extend our gratitude to the management team and staff for their sincere efforts as they embrace change and support IIB's transformation.



Suhail Mohamed Hajee
Chief Executive Officer

REMUNERATION DISCLOSURES

The Bank has a transparent, structured and comprehensive Remuneration Policy that covers all types of compensation, benefits and including the variable remuneration provided to employees at all levels of the Bank.

The Bank's Remuneration Policy is in line with the requirements of the Central Bank of Bahrain ("CBB"). The revised policy framework was approved by the Board of Directors and the Shareholders and the policy came into effect as of 27th April 2016.

The key features and objectives of the remuneration framework are summarized below.

Remuneration Policy

The fundamental principles underlying the Remuneration Policy are:

a. Remuneration offered by the Bank shall reflect the Bank's objective of attracting and retaining the best available talent in the industry. Remuneration will be at a level which will commensurate with other Banks of similar activity in Bahrain, and will allow for changes in the cost of living index;

b. The Nomination and Remuneration Committee of the Board (NRC) shall actively oversee the remuneration system's design and operation for approved persons and/or material risk-takers. The CEO and senior management shall not primarily control the remuneration system;

c. The compensation package shall comprise a fixed component consisting of basic salary and allowances and discretionary variable pay or bonus. The compensation package offered to employees is based on the job content and complexity. Whilst the remuneration package for all approved persons and material risk takers shall be approved by the NRC, the remuneration packages for other employees are required to be approved by the CEO based on the overall remuneration policy;

d. In a very limited number of cases, a higher salary may be offered to prospective employees who are especially well qualified or experienced for the position, or may be difficult to source. Careful consideration will be given to the effect of such an offer on existing salary levels. Such offers shall require approval as per the authority matrix and subject to the approval of the NRC;

e. Variable pay will be determined based on achievement of targets at the Bank level, business unit level and individual level;

f. Variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal:

   1- Performance metrics for applicable business units are risk-adjusted where appropriate; and

   2- Individual award determinations include consideration of adherence to compliance-related goals.

g. The remuneration package of employees in Control and Support functions (risk management, internal audit, operations, financial controls, internal Shari'ah review/audit, compliance and AML) are designed in such a way that they can function independently of the business units they support. Independence from the business for these employees is assured through:

   1- Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviors while remaining competitive with the market, ie. their total remuneration will be weighted more in favor of salary;

   2- Remuneration decisions are based on their respective functions and not the business units they support;

   3- Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function;

   4- Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments; and

   5- Both qualitative and quantitative measures will be used to evaluate an individual's performance within these functions.

h. The Bank does not provide for any form of severance pay, other than as required by the Labour Law for the Private Sector Law No.36 of 2012 of the Kingdom of Bahrain, to its employees. Under exceptional circumstances and subject to NRC approval, the Bank might offer sign on bonus or minimum variable pay for any new recruit limited to first year of employment only;

i. The Bank would not allow any of its employees, identified as approved persons as per CBB guidelines, to take any benefits from any projects or investments which are managed by the Bank or promoted to its customers or potential customers except for Board- related remuneration linked to their fiduciary duties to the investors of the project/investment including those appointed as members of the board of special purpose vehicles or other operating companies set up by the Bank for projects or investments;

j. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits;

k. If a senior manager is also a director, his remuneration as a senior manager must take into account compensation received in his capacity as a director; and

1. The Bank prohibits employees to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements. The Bank requires all employees to sign adherence to the Bank's code of ethics which includes the commitment of employees not to use personal hedging strategies or remuneration- and liability-related insurance.

NRC role and responsibilities

The Board of Directors ("The Board") of the International Investment Bank B.S.C. (c) ("IIB" or "the Bank") has formed a Nomination & Remuneration Committee ("NRC" or the "Committee"). The Committee's roles and responsibilities includes the following with respect to the remuneration policy of the Bank:

a. Review the Bank's remuneration policies for the approved persons and material risk-takers, which must be approved by the shareholders and be consistent with the corporate values and strategy of the Bank;

b. Approve the remuneration policy and amounts for each approved person and material risk-taker, as well as the total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;

c. Approve, monitor and review the remuneration system to ensure the system operates as intended;

d. Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law, 2001;

e. The remuneration committee shall carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. It must demonstrate that its decisions are consistent with an assessment of the Bank's financial condition and future prospects;

f. Design all the elements of remuneration including fixed salary, allowances, benefits and variable pay scheme for all levels of employees in the Bank. In designing the Remuneration Policy, the NRC shall consider the Core Remuneration Policy of the Bank, the business strategy of the Bank, the regulatory pronouncements of the Central Bank of Bahrain and the Labour Law for the Private Sector Law No.36 of 2012 of the Kingdom of Bahrain and inputs from the CEO and Senior Management. However the CEO and Senior Management shall not have any decision- making authority with respect to the Remuneration Policy;

g. Approve the remuneration policy and amounts for each approved person and material risk-taker as well as the total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;

h. Approve targets and associated risk parameters, and variable pay for achieving the set target for each financial year;

i. Approve total variable remuneration to be distributed, considering the total remuneration including salaries, fees, expenses, bonuses and other employee benefits at the end of the financial year based on the evaluation of actual performance as against the target for the financial year;

j. Approve, monitor and review the remuneration system on a regular basis to ensure the system operates as intended;

k. Undertake stress testing of the variable pay on a periodic basis to ensure that the variable pay scheme does not affect the Bank's solvency and risk profile, and its long term objectives and business goals;

l. Undertake back testing to adjust for ex-post risk adjustments to the variable pay paid in earlier years;

REMUNERATION DISCLOSURES CONTINUED

The NRC comprises the following members:

NRC Member Name	Appointment date	Resigning date	Number of meetings attended	
			2019	2018
Mr. Ahmed Bugshan	27 March 2014		-	-
Mr. Khaled Al Fahim	14 August 2018		2	-
Mr. Eshaq Ebrahim Eshaq	14 August 2018		2	-

No remuneration paid to the NRC members during the year save for sitting fees amounted to USD 4,000 (2018: USD Nil).

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 and 224 of the Bahrain Commercial Companies Law, 2001 (as amended). Moreover, the articles of association regarding remuneration of the Board of Directors shall be in line with the Rules outlined in the HC Module of the CBB rulebook applicable to the Bank.

Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

The process of determining the Board remuneration as per article 188 is as follows:

Step 1	–	Compute the results for the year.
Step 2	–	Determine whether profits were achieved and dividends paid to shareholders.
Step 3	–	If profits were made deduct transfer to the statutory reserve, if any, from Net Profit.
Step 4	–	Deduct notional dividend @ 5% of Net Profit or actual dividend whichever is higher.
Step 5	–	Base for Board Remuneration computation.
Step 6	–	Board Remuneration (Up to 10% of above).
Step 7	–	Make disclosures in the annual report as required by regulatory requirements.
Step 3A	–	If the Bank does not make profits or pay dividends to the shareholders, the Board of Director's remuneration has to be first approved by the shareholders in the Annual General Assembly Meeting and subsequently by the Ministry of Industry and Commerce.

Variable remuneration for staff

The Bank has set the fixed remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus will be paid purely at the discretion of the NRC in recognition of the employees' exceptional effort in any given financial year.

The Variable Pay Scheme is based on the following premise:

1. Employees' incentive payments must be linked to the contribution of the individual and business to such performance to promote a performance-driven culture within the Bank.
2. Sensitive to the time horizon of risks and variable remuneration is therefore deferred accordingly.
3. Ensure those performers (unit or individual) who exceed the target are appropriately rewarded.
4. Align total compensation with industry practice.

Should the NRC decide to approve, the variable pay will be determined as follows:

1. The bonus pool will be in direct proportion to the performance of the Bank. The target setting for the Bank considers the funding required for distribution of bonus including the net book value based employee phantom or shadow shares.

2. The costs associated with the employee(s) shadow shares scheme are typically the following:
   I. The net book value of the shadow shares awarded as part of the bonus shall be charged to staff costs in full in the year of award;
   II. The difference in net book value between the grant date and the vesting date. At the end of each performance period the difference between the net book value at the grant date and the current net book value for all the vested as well as unvested portion of the previous performance period(s) shadow shares will be charged to the income statement as part of staff costs;
3. Dividends on the awarded shadow shares for the performance period will be provided for and charged to the income statement as and when it is due to the employee;
4. Cash equivalent of bonus shadow shares, if any, declared on the awarded and unvested shares will be charged to the income statement;
5. Miscellaneous costs associated with administration of the employee(s) shadow shares scheme will be charged to the income statement;
6. The bonus pool is computed as a percentage of the realized profit based on the level of target achieved.
7. This bonus pool is subject to the following additional limits:
   a. The impact of the bonus pool is not more than 1.00% on the capital adequacy as computed as per Basle III guidelines and taking into consideration the CBB's minimum capital adequacy requirements; and
   b. The bonus pool shall not exceed the Total Fixed Remuneration paid during the financial year.
8. In the years when the Bank achieves less than 50% of the target or makes a loss, the Bank score is zero and so no bonus pool will be computed. In addition, the NRC could invoke clawback or malus clause pertaining to the bonuses paid out in earlier years. Recognition of staff who have achieved or exceeded their targets may take place by way of deferred bonuses, which may be paid once the Bank's performance improves.

Remuneration of control functions
The remuneration level of staff in the control functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control function personnel is weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is determined independently from (and not by the individual financial performance of) the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the control functions on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk control, compliance and ethical considerations as well as the market and regulatory environment, apart from value adding tasks which are specific to each unit.

Variable compensation for business units
The variable compensation for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as market and regulatory environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk on behalf of the Bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy reduces employees' incentives to take excessive and undue risk, is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

The Bank's NRC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

REMUNERATION DISCLOSURES CONTINUED

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of a Bank's current capital position and it's internal capital adequacy assessment process ("ICAAP").

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank takes into account the full range of current and potential risks, including:

a) The cost and quantity of capital required to support the risks taken;
b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRC keeps itself abreast with the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against risk assumptions. In years where the Bank suffers material losses, the risk adjustment framework would work as follows:

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean certain individual key performance indicators are not met and hence employee performance ratings would be lower.
- Reduction in value of deferred phantom shares or awards.
- If the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous bonus awards may be considered.

The NRC, with Board approval, can rationalize and make the following discretionary decisions:

- Increase/ reduce the ex-post adjustment.
- Consider additional deferrals of phantom share awards.
- Recovery through malus and clawback arrangements.

Malus and clawback framework

The Bank's malus and clawback provisions allow the NRC to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable compensation could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term.

Any decision to take back an individual's award can only be taken by the NRC (taking into account the advice of the CEO and the Risk, Finance, HR, Legal & Compliance and other departments as appropriate).

The Bank's malus and clawback provisions allow the Bank's Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include the following circumstances:

- Reasonable evidence of material error or a breach of Bank's policy by the employee(s);
- The Bank or the Business Unit suffers material losses or significant loss of business which could be attributed to the actions of the employee(s);
- The employee(s) could be held responsible for material failure of risk management; and
- Evidence of fraud or collusion amongst employee(s) or by employee(s) with third parties and which is prosecutable in a court of law.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.
Upfront phantom shares	The portion of variable compensation that is awarded and issued in the form of phantom shares on conclusion of the performance evaluation process for each year.
Deferred phantom shares	The portion of variable compensation that is awarded and paid in the form of phantom shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All phantom share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of phantom share awards is linked to the Bank's share price as per the rules of the Bank's phantom share incentive plan rules. Any dividend on these phantom shares is released to the employee along with the phantom shares (i.e. after the retention period in line with the incentive plan rules).

Deferred compensation

All covered employees shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, his deputies and 5 most highly paid business line employees	Other covered staff	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	immediate	-	-	Yes
Deferred cash	10%	-	Over 3 years	-	Yes	Yes
Upfront phantom shares	-	10%	immediate	6 months	Yes	Yes
Deferred phantom shares	50%	40%	Over 3 years	6 months	Yes	Yes

The NRC, based on its assessment of role profiles and risk taken by an employee, could increase the coverage of employees that would be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors (including Board Committees)

	2019 (USD'000)	2018 (USD'000)
• Sitting Fees	47	30
• Air Ticket and Hotel Expenses	37	38
• Others	1	6

(b) Shari'ah Supervisory Board

	2019 (USD'000)	2018 (USD'000)
• Sitting Fees	11	12
• Retention Fees	70	78

REMUNERATION DISCLOSURES CONTINUED

(c) Employee remuneration

2019

		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Performance		Deferred			
(USD'000)	Number of staff	Cash	Others	(Cash / phantom shares)	(Cash / phantom shares)	Cash	Phantom Shares	Cash	Phantom Shares	Others	
Approved persons											
- Business lines	5	923	93	-	-	73	-	-	-	-	1,088
- Control & support	4	411	82	-	-	13	-	-	-	-	506
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	20	766	293		-	37	-	-	-	-	1,096
TOTAL	29	2,100	468	-	-	122	-	-	-	-	2,690

2018

		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Performance		Deferred			
(USD'000)	Number of staff	Cash	Others	(Cash / phantom shares)	(Cash / phantom shares)	Cash	Phantom Shares	Cash	Phantom Shares	Others	
Approved persons											
- Business lines	5	629	119	-	-	11	-	-	-	-	759
- Control & support	4	438	74	-	-	13	-	-	-	-	525
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	22	775	310		-	8	-	-	-	-	1,093
TOTAL	31	1,842	503	-	-	32	-	-	-	-	2,377

(d) Deferred awards

IIB has not paid any deferred awards for the year 2019 and 2018.

(e) Severance pay

IIB has not paid under Severance pay during 2019 and 2018 any amount other than what is contractual or law related requirements payments.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 2019

Contents

Shari'ah Supervisory Board Report

Of International Investment Bank B.S.C. (c)
Manama, Kingdom of Bahrain

ON THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR-ENDING DECEMBER 31, 2019

In compliance with the terms of our letter of appointment, we are required to report as follows:

BANK PERFORMANCE

The Shari'ah Supervisory Board ("SSB") was presented with all the investments, contracts and agreements that were conducted by the International Investment Bank ("Bank") during the course of the year ending December 31, 2019. The SSB reviewed the principles, contracts and agreements relating to all these investments in order to issue an independent opinion on whether the Bank followed the principles of the Islamic Shari'ah, specific fatwas, and guidelines issued by the SSB.

The SSB also reviewed the Shari'ah reports issued by the Internal Shari'ah Audit Department, which were completed in accordance with the Shari'ah audit plan approved by the Shari'ah Board. The SSB approved these reports, which include the Bank's operations and its subsidiaries.

During the year 2019, the Bank exited from several investments, namely IIB France Investment Holding, Bay View Tower, and the SSB has approved the exit on these investments.

Respective responsibility of the Bank's Management and the Shari'ah Supervisory Board

Where the Bank's management is responsible for ensuring that its operations are carried out in compliance with SSB rulings. Whereas, the duty of the SSB to express an independent view on the Bank's investments, contracts and agreements made by the Bank during the year-ending December 31, 2019.

In our opinion:

1. The Bank's contracts, transactions and deals in general for the year ending December 31, 2019 comply with the rules and principles of the Islamic Shari'ah.

2. The Bank's allocation of profit and charging of losses relating to investment accounts comply with the rules and principles of the Islamic Shari'ah as per Accounting and Auditing Organization for Islamic Financial Institutions.

3. No earnings have been realized from non-Shari'ah compliant sources during the fiscal year.

4. The Bank's calculation of Zakat complies with the rules and principles of the Islamic Shari'ah and has been calculated in accordance with the Net Asset Method described in the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") standards and it is the responsibility of the shareholders to pay their Zakat allocation.

5. As for the Bank's investments in Azerbaijan "Amrah Bank", the situation remains the same, as it has not yet been converted to a Shari'ah Compliant Bank or exited as requested by the SSB in it resolutions.

We beseech the Almighty to grant us excellence and success.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sh. Dr. Nizam Yaqouby Chairman	**Sh. Dr. Osama Bahar** Member	**Sh. Abdul Nasser Al-Mahmoud** Member

Independent Auditors' Report to the Shareholders

Of International Investment Bank B.S.C. (c)
Manama, Kingdom of Bahrain

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of International Investment Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of income, changes in owners' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah rules and principles are the responsibility of the board of directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

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

Opinion

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

Emphasis of matter

We draw attention to note 1 of the consolidated financial statements, which states the current capital position of the Bank being below the minimum regulatory requirement and the shareholders' decision to convert the current Banking license to a 'Category 1' investment firm business. Our opinion is not modified in respect of this matter.

REPORT ON OTHER REGULATORY REQUIREMENTS

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

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

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

c) Except for the matters discussed in Emphasis of Matter paragraph above, we are not aware of any violations during the year of the Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2 and applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration no. 137
19 February 2020

Consolidated Statement of Financial Position

As at 31 December 2019 - US$ 000's

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and balances with banks		2,852	2,476
Placements with financial institutions	5	9,586	14,572
Investment securities	6	33,584	42,265
Investment in real estate	7	-	11,883
Equity-accounted investee	8	-	592
Other assets	9	218	450
Total assets		**46,240**	72,238
LIABILITIES			
Financing liabilities	10	-	4,394
Other liabilities	11	1,829	3,965
Total liabilities		**1,829**	8,359
OWNERS' EQUITY			
Share capital	12	109,996	109,996
Treasury shares	12	(6,798)	(6,798)
Share premium		19,645	19,645
Statutory reserve		6,980	6,980
Investment fair value reserve		272	-
Accumulated losses		(87,475)	(70,975)
Equity attributable to shareholders of Bank		**42,620**	58,848
Non-controlling interests		1,791	5,031
Total owners' equity		**44,411**	63,879
Total liabilities and owners' equity		**46,240**	72,238

The consolidated financial statements were approved by the Board of Directors on 19 February 2020 and signed on their behalf by:

Saeed AJ Al Faheem
Chairman of the Board of Directors

Dr. Abdulaziz E AlTerki
Chairman of Board Audit and Corporate Governance Committee

Suhail Mohamed Hajee
Chief Executive Officer

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2019 - US$ 000's

	Note	**31 December 2019**	31 December 2018
Continuing operations			
INCOME			
Loss from investment securities	13	**(9,538)**	(5,056)
Income from sale of assets acquired for leasing		**-**	3,163
Income from sale of real estate		**50**	-
Management fees		**913**	461
Income from placements with financial institutions		**290**	97
Rental income from investment in real estate		**112**	93
Foreign exchange (loss)/gain		**(5)**	8
Other income		**11**	943
Total income		**(8,167)**	(291)
EXPENSES			
Staff cost	14	**2,726**	2,391
Finance expenses		**-**	886
Legal and professional expenses		**482**	1,114
Rental expenses		**231**	239
Other operating expenses	15	**1,442**	2,631
Total expenses		**4,881**	7,261
Loss before impairment allowances		**(13,048)**	(7,552)
Impairment allowances:			
- Investment securities	6	**(2,973)**	(6,573)
- Investment in real estate	7	**(2,130)**	-
- Equity-accounted investee	8	**(592)**	(238)
- Receivables		**(211)**	-
Loss for the year from continuing operations		**(18,954)**	(14,363)
Discontinued operations			
Profits from assets acquired for leasing, net		**-**	922
LOSS FOR THE YEAR		**(18,954)**	(13,441)
Attributable to:			
Shareholders of the Bank		**(16,500)**	(12,673)
Non-controlling interests		**(2,451)**	(561)
Non-controlling interests related to discontinued operations		**(3)**	(207)
		(18,954)	(13,441)

Saeed AJ Al Faheem
Chairman of the Board of Directors

Dr. Abdulaziz E AlTerki
Chairman of Board Audit and Corporate Governance Committee

Suhail Mohamed Hajee
Chief Executive Officer

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2019 - US$ 000's

	Attributable to shareholders of the Bank								
31 December 2019	**Share capital**	**Treasury shares**	**Share premium**	**Statutory reserve**	**Accumulated losses**	**Investments fair value reserve**	**Total**	**Non-controlling interests***	**Total owners' equity**
Balance at 1 January 2019	109,996	(6,798)	19,645	6,980	(70,975)	-	58,848	5,031	63,879
Loss for the year	-	-	-	-	(16,500)	-	(16,500)	(2,454)	(18,954)
Fair value changes during the year (net)	-	-	-	-	-	272	272	-	272
Total recognised income and expense for the year	-	-	-	-	(16,500)	272	(16,228)	(2,454)	(18,682)
Distribution to non-controlling interests	-	-	-	-	-	-	-	(786)	(786)
Balance at 31 December 2019	**109,996**	**(6,798)**	**19,645**	**6,980**	**(87,475)**	**272**	**42,620**	**1,791**	**44,411**

	Attributable to shareholders of the Bank								
31 December 2018	Share capital	Treasury shares	Share premium	Statutory reserve	Accumulated losses	Investments fair value reserve	Total	Non-controlling interests*	Total owners' equity
Balance at 1 January 2018	109,996	(6,798)	19,645	6,980	(58,302)	167	71,688	6,560	78,248
Loss for the year (page 39)	-	-	-	-	(12,673)	-	(12,673)	(768)	(13,441)
Fair value changes during the year (net)	-	-	-	-	-	(167)	(167)	-	(167)
Total recognised income and expense for the year	-	-	-	-	(12,673)	(167)	(12,840)	(768)	(13,608)
Distribution to non-controlling interests	-	-	-	-	-	-	-	(761)	(761)
Balance at 31 December 2018	109,996	(6,798)	19,645	6,980	(70,975)		58,848	5,031	63,879

* *NCI includes equity US$ 4 (2018: US$ 6.5) and loss for the year US$ 3 (2018: US$ 207) related to discontinued operations of IIB Aircraft Lease SPC Limited.*

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019 - US$ 000's

	31 December 2019	31 December 2018
OPERATING ACTIVITIES		
Loss for the year	(18,954)	(13,441)
Adjustments for:		
Impairment allowances	5,695	6,811
Depreciation and amortization	53	2,865
Fair values changes in investment securities, net	10,049	5,121
Finance expense	-	2,200
Amortization of deferred expense	-	80
Provision against receivables	211	-
Gain on sale of investments and real estate, net	(241)	(65)
Gain on sale of asset acquired for leasing	-	(3,163)
Operating (loss)/profit before changes in assets and liabilities	(3,187)	408
Changes in assets and liabilities:		
Other assets	(8)	1,777
Other liabilities	(513)	2,907
Net cash flows (used in)/generated from operating activities	(3,708)	5,092
INVESTING ACTIVITIES		
Purchase of investments	(10,070)	(501)
Wakala placements maturing after three months	(4,153)	-
Proceeds from disposal of investments	9,497	65
Proceeds from disposal of assets acquired for leasing	-	66,850
Purchase of equipment, net	(22)	(9)
Net cash flows (used in)/generated from investing activities	(4,748)	66,405
FINANCING ACTIVITIES		
Financing cost paid	-	(2,220)
Financing liabilities repaid	-	(56,863)
Distribution to non-controlling interests	(307)	(1,479)
Net cash flows used in financing activities	(307)	(60,562)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(8,763)	10,935
Cash and cash equivalents at beginning of the year	17,048	6,113
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	8,285	17,048
Cash and cash equivalents comprise:		
Cash and balances with banks	2,852	2,476
Placements with financial institutions (with original maturities of 3 months or less) (note 5)	5,433	14,572
	8,285	17,048

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For The Year Ended 31 December 2019 - US$ 000'S

1 REPORTING ENTITY

International Investment Bank B.S.C.(c) (the "Bank") was incorporated on 6 October 2003 under commercial registration (CR) number 51867 as a joint stockholding company incorporated in the Kingdom of Bahrain. The Bank operates as an Islamic Wholesale Investment Bank under a license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is 37th floor, Al Moayyed Tower, PO Box 11616, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Shari'ah Supervisory Board (SSB) whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank include investment advisory services and investment transactions, which comply with Islamic rules and principles according to the opinion of the Group's Shari'ah Supervisory Board.

Regulatory matters

The Group's total equity attributable to shareholder of the Bank as at 31 December 2019 was US$42.6 million (31 December 2018: US$ 58.8 million) which is less than the minimum required capital of US$ 100 million required under LR Module of Volume 2 of the Central Bank of Bahrain (CBB) rule book (LR 2.5.2B). The shareholders vide resolution dated 18 July 2019 have decided to convert the Bank to a 'Category 1' investment entity and have submitted the application for the same to the CBB.

Consolidated financial statements

The consolidated financial statements comprise the results of the Bank and its subsidiaries.

The following are the principal subsidiaries of the Bank that are consolidated:

Sr No	Subsidiary	Beneficial ownership interests 2019	Beneficial ownership interests 2018	Year of incorporation / acquisition	Country of incorporation	Principal activity
1	Istethmary Sarajevo City Centre - I Limited	**93.77%**	93.77%	2009	Cayman Islands	Investment in real estate
2	Istethmary Al Fareeda B.S.C. (c)	**100%**	100%	2008	Bahrain	Investment in real estate
3	Bahrain Bunny Shares & Securities Co WLL.	**63.10%**	63.10%	2012	Bahrain	Investment in quick service restaurant business
4	Multifamily Residential Ltd –I ("MR-I")	**98.3%**	98.3%	2013	Cayman Islands	Investment in real estate
5	Multifamily Residential Ltd – II ("MR-II")	**98.3%**	98.3%	2013	Cayman Islands	Investment in real estate
6	IIB Aircraft Lease SPC Limited	**100%**	100%	2014	Cayman Islands	Purchase and lease of aircraft
7	IIB German Property Company Limited	**100%**	67.41%	2016	Cayman Islands	Investment in real estate
8	IIB France Investments Holding BSC (c)	**50.57%**	50.57%	2016	Bahrain	Investment in real estate

The Group (Bank together with subsidiaries referred to as Group) has other special purpose entities (SPE's) holding companies which are set up to supplement the activities of the Group and its principal subsidiaries.

2 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards ('IFRS').

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

2 BASIS OF PREPARATION (continued)

New standards, amendments and interpretations effective from 1 January 2019

The new standard FAS 28 - 'Murabaha and Other Deferred Payment Sales' is not applicable to the Bank as the Bank does not have murabaha and other deferred payment sales transactions.

New standards, amendments and interpretations issued but not effective

FAS 31 - Investment Agency (Al-Wakala Bi Al-Istithmar)

The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations, as applicable, for the Islamic financial institutions from both perspectives i.e. the principal (investor) and the agent.

Principal (Investor)

The standard requires the principal either to follow the Pass through approach (as a preferred option) or the Wakala venture approach.

Pass through approach

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. There is a rebuttable assumption that in all investment agency arrangements, the investor takes direct exposure on the underlying assets (including a business) at the back end. As a result, the investor shall account for the assets (including the business) in its books directly, according to appropriate accounting policies applicable on such assets (or business) in line with respective FAS or the generally accepted accounting principles in absence of a specific FAS on the subject.

Wakala venture approach

Wakala venture approach can be adopted when the, if the investment agency contracts meets the conditions of the instrument being transferable and the investment is subject to frequent changes at the discretion of the agent. In case of this approach, the principal accounts for the investment in Wakala venture by applying the equity method of accounting.

Agent

The standard requires the agent either to follow the off-balance sheet approach or the on-balance sheet approach (only on exceptions by virtue of additional considerations attached to the investment agency contract).

Off-balance sheet approach

At inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach whereby, since the agent does not control the related assets / business and hence does not record the assets and related income and expenditure in its books of account. The agent shall not recognize the assets and / or liabilities owned by the investor(s) (principal(s)) in its books of account.

If the agent previously owned such assets directly or through on-balance sheet equity of investment accountholders or similar instruments, the agent shall de-recognize the assets (and liabilities) from its books of account.

On-balance sheet approach

An agent may maintain multi-level investment arrangements based on independent permissible transactions with the agent itself. Notwithstanding the requirements of this standard with regard to investment agency arrangements, such secondary transactions shall be accounted for in line with the requirements of respective FAS in the books of the agent.

The agent shall consider the investment agency arrangement as a quasi-equity instrument for accounting purposes, if the investment agency instrument, by virtue of additional considerations attached to the instrument, is subordinated to all liabilities of the agent.

This standard shall be effective for the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

The adoption of this amendment is not expected to have any significant impact on consolidated financial position of the Bank.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

2 BASIS OF PREPARATION (continued)

a) Statement of compliance (continued)

FAS 33 - Investment in Sukuk, shares and similar instruments

The objective of this standard is to set out the principles for the classification, recognition, measurement and presentation and disclosure of investment in Sukuk, shares and other similar instruments made by Islamic financial institutions. This standard shall apply to an institution's investments whether in the form of debt or equity securities. This standard replaces FAS 25 Investment in Sukuk, shares and similar instruments and produces revised guidance for classification and measurement of investments to align with international practices.

The standard classifies investments into equity type, debt type and other investment instruments. Investments in equity instruments must be at fair value and will not be subject to impairment provisions as per FAS 30 «Impairment, Credit Losses and Onerous Commitments». In limited circumstances, where the institution is not able to determine a reliable measure of fair value of equity investments, cost may be deemed to be best approximation of fair value.

Investment can be classified and measured at amortized cost, fair value through equity or fair value through the income statement. Classification categories are now driven by business model tests and reclassification will be permitted only on change of a business model and will be applied prospectively.

This standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

The adoption of this amendment is not expected to have any significant impact on the Bank since the current classification of financial assets are as per the requirements of this amendment.

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for certain investment securities and investment in real estate that are carried at fair value. The consolidated financial statements are presented in United States Dollars (US$), being the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

c) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The financial statements of a subsidiary are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 24.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated statement of financial position as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

2 BASIS OF PREPARATION (continued)

c) Basis of consolidation (continued)

Non-controlling interests (continued)

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

ii) Investment in associate (Equity-accounted investee)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exit when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 - Investment in Associates for venture capital recognised and designates certain of its investment in associate, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer note 3 (b)).

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an equity-accounted investee at the date of acquisition is recognised as goodwill and included within the carrying amount of the investment. When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

If the ownership interest in an equity-accounted investee is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in equity is reclassified to the consolidated income statement where appropriate.

iii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions and any recognised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investee are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as recognised gains, but only to the extent that there is no evidence of impairment.

The reporting period of the Group's subsidiaries and equity-accounted investee are identical, and their accounting policies conform to those used by the Group for similar transactions and events in similar circumstances. The accounting policies of the subsidiaries and equity-accounted investee have been changed where necessary to ensure consistency with the policies adopted by the Group.

d) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated income statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated income statement. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

2 BASIS OF PREPARATION (continued)

d) Business combination (continued)

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements.

a) Foreign currency transactions

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US$, which is the Group's functional and presentation currency.

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

b) Investment securities

Investment securities comprise debt and equity instruments but exclude investment in subsidiaries and equity-accounted investee (refer note 2 (c ii)).

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type instruments

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

These investments are either not managed on contractual yield basis or designated on initial recognition at FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognised the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

At amortised cost

This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis. These include investments in short term to long-term sukuk.

Equity-type instruments

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

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Investment securities (continued)

At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments designated on initial recognition at FVTIS.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in private equity, funds and investment in equity accounted investees (refer note 2 c (ii))

At fair value through equity (FVTE)

Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. This category includes investment in unquoted equity securities.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement

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

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in owners' equity and presented in a separate fair value reserve within equity.

When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the consolidated income statement.

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

Subsequent to initial recognition, debt-type investments other than those carried at FVTIS are measured at amortised cost using the effective profit method less any impairment allowances.

(iv) Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative recognised using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

3. SIGNIFICANT ACCOUNTING POLICIES (continued))

c) Placements with financial institutions

These comprise inter-bank placements made using Shari'ah compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

d) Investment in real estate

Investment in real estate comprises of a building held to earn rental income and/or are expected to benefit from capital appreciation. Investment in real estate are measured initially at cost, including directly attributable expenditure. Subsequently, investment in real estate are carried at fair value.

Any recognised gains arising from changes in the fair value of investment in real estate shall be recognised directly in owners' equity under "Property fair value reserve".

Investment in real estate is derecognised when they have been disposed of or when an investment in real estate is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment in real estate is recognised in the consolidated income statement in the year of retirement or disposal.

Any losses resulting from re-measurement at fair value of investment in real estate carried at fair value shall be adjusted in owners' equity against the property fair value reserve to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the losses shall be recognised in the consolidated income statement. In case there are recognised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial year, the recognised gains relating to the current financial year shall be recognised to the extent of crediting back such previous losses in the consolidated income statement.

e) Impairment of financial instruments

i) Exposures subject to credit risk

The Group recognises loss allowances for ECLs on:

- Cash and bank balances;
- Placements with financial institutions;
- Investments in Sukuk (debt-type instruments carried at amortised cost); and

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

> Debt-type securities that are determined to have low credit risk at the reporting date; and

> other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group assumes that the credit risk on exposure subject to credit risk increased significantly if it is more than 30 days past due. The Group considers an exposure subject to credit risk to be in default when:

> the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or

> the exposure is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per S&P.

The Group applies a three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial instruments (continued)

Stage 1: 12-months ECL

Stage 1 includes exposures that are subject to credit risk on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes exposures that are subject to credit risk that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the life-time probability of default ('PD').

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes exposures that are subject to credit risk that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the CBB's rule book. For these assets, lifetime ECL is recognised.

Measurement of ECLs

> ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

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

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

> Undrawn financing commitment: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive; and

> Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

> ECLs are discounted at the effective profit rate of the financial asset.

Credit-impaired exposures

At each reporting date, the Group assesses whether financial assets and assets acquired for leasing are credit-impaired. A financial asset and an asset acquired for leasing 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 being more than 90 days past due;

> the restructuring of a financing facility or advance by the Bank on terms that the Bank would not consider otherwise;

> it is probable that the borrower will enter bankruptcy or other financial reorganisation; or

> the disappearance of an active market for a security because of financial difficulties.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of financial instruments (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

ii) Equity investments classified at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable measure of fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is below the carrying value of the investment.

f) Other non-financial assets

The carrying amount of the Group's assets or its cash generating unit, other than financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement.

Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

g) Financing liabilities

Financing liabilities represents long term finance facilities from financial institutions. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing costs are recognised in the consolidated income statement as finance expense. The Group derecognises a financing liability when its contractual obligations are discharged, cancelled or expire.

h) Share capital and reserves

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the consolidated financial statements as a change in owner's equity. No gain or loss is recognised on the Group's consolidated income statement on the sale of treasury shares.

Statutory reserve

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

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and placements with financial institutions with original maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

j) Revenue recognition

Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue earned by the Group and gain / loss on assets are recognised on the following basis:

Management and other fees are recognised as income when earned and the related services are performed and there is no uncertainty on its collectability.

Income from placements financial institutions and sukuk are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Fair value gain / (loss) on investment securities (recognised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 3 (b)).

Gain on sale of investment securities (recognised gain) is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

Income from assets acquired for leasing are recognised proportionately over the lease term.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

k) Earnings prohibited by Shari'ah

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

l) Zakah

Pursuant to the decision of the shareholders', Zakah is the responsibility of the shareholders. The Group is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'ah Supervisory Board and provided on request.

m) Employees benefits

(i) Short-term benefits

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

(ii) Post-employment benefits

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

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Dividends and other appropriations

Dividends to shareholders and other appropriations are recognised as liabilities in the period in which they are declared and approved by the shareholders in a general meeting.

o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

p) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is probable. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

q) Leases

Payments under operating lease are recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

r) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

s) Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

t) Offsetting of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets include cash and balances with banks, placements with financial institutions, financing receivables, investment securities and other assets. Financial liabilities include financing liabilities related to assets acquired for leasing and other liabilities.

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

Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

u) Segmental reporting

The Group operates under one segment "Investment Banking", therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Judgement

Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 3 (b)).

Special Purpose Entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Estimations

Fair value of financial instruments

The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of the management of the investee companies and based on the latest available audited and un-audited financial information. The basis of valuation has been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

Impairment on investments carried at fair value carried through equity

Equity-type instruments classified as investments at FVTE comprise investments in certain unquoted equity securities in diversified sectors. In assessing impairment, the Group evaluates among other factors, liquidity of the investee, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in operational and financing cash flows. The Group has exposures to investments that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions is adequate and reflect prevailing conditions and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

Fair value of investment in real estate

The fair value of investment in real estate is determined by independent real estate valuation experts. Having recent experience in the locations and segments of the investment in real estate that is being valued. The determination of the fair value of such assets requires the use of judgment based on estimates by independent valuation experts that are based on local market conditions existing at the reporting date. For all investment in real estate, their current use equates to the highest and best use. Buildings were valued based on capitalization of future rental cash flows and expected realizable amounts through sale in an orderly manner.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Impairment of receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated.

Impairment of non-financial assets

The fair value of non-financial assets is measured using valuation techniques such as discounted cash flow valuations and recent transaction prices.

5. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2019	31 December 2018
Wakala placements maturing within 3 months	**5,433**	14,572
Wakala placements maturing after 3 months	**4,153**	-
	9,586	14,572

6. INVESTMENT SECURITIES

	31 December 2019	31 December 2018
Debt type instruments		
At amortized cost		
- Quoted sukuk (Sovereign)	**4,570**	501
Equity type instruments		
At fair value through income statement (Level 3)		
- Unquoted equity securities (Level 3)	**26,511**	36,560
At fair value through equity		
- Quoted equity securities	**2,503**	2,557
- Unquoted equity securities	**-**	2,647
	33,584	42,265

a) Equity type investments - At fair value through income statement

	31 December 2019	31 December 2018
At 1 January	**36,560**	42,091
Fair value changes	**(10,049)**	(5,531)
At 31 December	**26,511**	36,560

b) Equity type investments - At fair value through equity

	31 December 2019	31 December 2018
At 1 January	**5,204**	12,025
Fair value changes	**272**	(167)
Disposals during the year, at carrying value	**-**	(81)
Impairment charge for the year	**(2,973)**	(6,573)
At 31 December	**2,503**	5,204

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

7. INVESTMENT IN REAL ESTATE

	31 December 2019	31 December 2018
Buildings	-	11,883
	-	11,883

	31 December 2019	31 December 2018
At 1 January	11,883	11,883
Impairment loss	(2,130)	-
Disposals	(9,753)	-
At 31 December	-	11,883

Investment in real estate comprise of buildings in Kingdom of Bahrain and France. The properties were disposed off during the year.

8. EQUITY-ACCOUNTED INVESTEE

Investment in associate comprises:

Entity	Country of incorporation	% holding	Nature of activities
IIB UAE Investments Limited	Cayman	27.32%	Invest in income generating residential, office and commercial real estate assets

	31 December 2019	31 December 2018
At 1 January	592	830
Impairment allowance	(592)	(238)
At 31 December	-	592

Summarised financial information of associate that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group and related subsequent acquisition accounting adjustment (based on most recent audited financial statements / most recent management accounts):

	31 December 2019	31 December 2018
Assets	1,601	12,678
Liabilities	501	495
Revenue	-	-
Loss for the year	(23)	(52)

9. OTHER ASSETS

	31 December 2019	31 December 2018
Receivables	25	220
Staff receivable	19	20
Prepaid expenses	107	123
Equipment	38	70
Others	29	17
	218	450

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

10. FINANCING LIABILITIES

Financing liabilities represents borrowings, by subsidiary for the purchase of investments in real estate and are secured against the investment in real estate held through special purpose vehicle and do not have any recourse to the Bank .

11. OTHER LIABILITIES

	31 December 2019	31 December 2018
Employee related accruals	312	312
Accrued expenses	404	777
Other payables	1,113	2,876
	1,829	3,965

12. SHARE CAPITAL

	31 December 2019	31 December 2018
Authorized:		
200,000,000 (2018: 200,000,000) ordinary shares at US$ 1 per share	200,000	200,000
Issued, subscribed and paid-up capital		
109,996,000 (2018: 109,996,000) ordinary shares at US$ 1 per share	109,996	109,996

At 31 December 2019, the Bank held 3,000,000 (31 December 2018: 3,000,000) treasury shares.

13. INCOME FROM INVESTMENT SECURITIES

	31 December 2019	31 December 2018
Fair value changes on investment securities	(10,049)	(5,121)
Gain on sale of investment securities	191	65
Income from sukuk	183	-
Dividend income	137	-
	(9,538)	(5,056)

14. STAFF COST

	31 December 2019	31 December 2018
Salaries and benefits	2,677	2,349
Leaving indemnity	49	42
	2,726	2,391

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

15. OTHER OPERATING EXPENSES

	31 December 2019	31 December 2018
Deal related expenses	530	575
Directors sitting fees	47	30
Directors expenses	38	43
Shari'ah supervisory board expenses	81	89
Advertisement expenses	38	78
Business travel expenses	65	74
Depreciation	53	64
IT expenses	43	59
VAT expense	34	-
Other property related expenses	-	1,315
Others	513	304
	1,442	2,631

16. CONCENTRATION OF ASSETS AND LIABILITIES

a) Industry sector

The industrial distribution of the Group's assets and liabilities as at 31 December 2019 is as follows:

31 December 2019	Trading and Manufacturing	Banks and financial institutions	Real estate	Aviation	Others	Total
Assets						
Cash and balances with banks	23	628	2,122	72	7	2,852
Placements with financial institutions	-	9,586	-	-	-	9,586
Investment securities	2,503	4,570	26,511	-	-	33,584
Other assets	-	-	25	27	166	218
Total assets	**2,526**	**14,784**	**28,658**	**99**	**173**	**46,240**
Liabilities						
Other liabilities	-	20	44	-	1,765	1,829
Total liabilities	-	**20**	**44**	-	**1,765**	**1,829**

31 December 2018	Trading and Manufacturing	Banks and financial institutions	Real estate	Aviation	Others	Total
Assets						
Cash and balances with banks	-	1,704	771	-	1	2,476
Placements with financial institutions	-	14,572	-	-	-	14,572
Investment securities	2,929	501	32,353	-	6,482	42,265
Investment in real estate	-	-	11,883	-	-	11,883
Equity-accounted investee	-	-	592	-	-	592
Other assets	-	5	185	18	242	450
Total assets	2,929	16,782	45,784	18	6,725	72,238
Liabilities						
Financing liabilities	-	-	4,394	-	-	4,394
Other liabilities	-	25	450	-	3,490	3,965
Total liabilities	-	25	4,844	-	3,490	8,359

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

17. MATURITY PROFILE OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2019	Up to 3 months	3 months to 1 year	Total up to 1 year	1 to 3 Years	3 to 5 Years	No stated maturity	Total
ASSETS							
Cash and balances with banks	2,852	-	2,852	-	-	-	2,852
Placements with financial institutions	5,433	4,153	9,586	-	-	-	9,586
Investment securities	4,570	-	4,570	29,014	-	-	33,584
Other assets	89	83	172	6	2	38	218
Total assets (a)	**12,944**	**4,236**	**17,180**	**29,020**	**2**	**38**	**46,240**
Liabilities							
Other liabilities	969	321	1,290	539	-	-	1,829
Total liabilities (b)	**969**	**321**	**1,290**	**539**	**-**	**-**	**1,829**
Commitments (c)	**38**	**114**	**152**	**32**	**-**	**-**	**184**
Net liquidity gap (a-b-c)	**11,937**	**3,801**	**15,738**	**28,449**	**2**	**38**	**44,227**
Cumulative net liquidity gap	**11,937**	**3,801**	**15,738**	**28,449**	**2**	**38**	**44,227**

31 December 2018	Up to 3 months	3 months to 1 year	Total up to 1 year	1 to 3 Years	3 to 5 Years	No stated maturity	Total
ASSETS							
Cash and balances with banks	2,476	-	2,476	-	-	-	2,476
Placements with financial institutions	14,572	-	14,572	-	-	-	14,572
Investment securities	-	501	501	41,764	-	-	42,265
Investment in real estate	-	-	-	11,883	-	-	11,883
Equity-accounted investee	-	-	-	592	-	-	592
Other assets	81	100	181	196	3	70	450
Total assets (a)	17,129	601	17,730	54,435	3	70	72,238
Liabilities							
Financing liabilities	4,394	-	4,394	-	-	-	4,394
Other liabilities	497	2,026	2,523	1,442	-	-	3,965
Total liabilities (b)	4,891	2,026	6,917	1,442	-	-	8,359
Commitments (c)	38	115	153	184	-	-	337
Net liquidity gap (a-b-c)	12,200	(1,540)	10,660	52,809	3	70	63,542
Cumulative net liquidity gap	12,200	(1,540)	10,660	52,809	3	70	63,542

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

18. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties comprise associates, major shareholders, directors and executive management of the Group and/or entities over which they exercise control and/or significant influence.

The related party balances included in these consolidated financial statements are as follows:

	31 December 2019				31 December 2018			
	Associates	Major shareholders / entities in which directors are interested	Assets under management	Total	Associates	Major shareholders / entities in which directors are interested	Assets under management	Total
Assets								
Investment securities	26,511	-	2,503	29,014	35,520	2,557	3,687	41,764
Equity-accounted investee	-	-	-	-	592	-	-	592

	Year ended 31 December 2019				Year ended 31 December 2018			
	Associates	Major shareholders / entities in which directors are interested	Assets under management	Total	Associates	Major shareholders / entities in which directors are interested	Assets under management	Total
Income								
Income from investment securities	(9,009)	-	913	(8,096)	(1,038)	-	3,585	2,547
Expenses								
Impairment allowances	(592)	-	(716)	(1,308)	(238)	-	(939)	(1,177)

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation is as follows:

	31 December 2019	31 December 2018
Board member fees and allowance	85	73
Salaries, other short-term benefits and expenses	1,694	1,530
Post-employment benefits	133	114

19. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risk

Risk inherent in the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his/her responsibilities. The Group has a risk management and governance framework which is intended to integrate risk management in its strategic thinking and business practices.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

19 FINANCIAL RISK MANAGEMENT (continued)

Risk Management and Governance Structure

Board of Directors

The Board of Directors "the Board" is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Committee

The Audit Committee is appointed by the Board and consists of three non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Executive Committee

The Executive Committee comprising of the Board members considers and approves requests to purchase and sell individual investments up to the limit imposed by the Board.

Shari'ah Supervisory Board

The Shari'ah Supervisory Board reviews the principles and contracts relating to the transactions conducted by the Group to judge whether it followed the principles of the Islamic Shari'ah and specific fatwas, rulings and guidelines issued.

Asset and Liability Committee

The Assets & Liabilities Committee is responsible for monitoring liquidity risk, profit rate risk, foreign currency limits/exposures, capital adequacy and the overall asset/liability mix.

Investment Committee

Potential deals are presented to the Investment Committee for consideration and those worthy of further evaluation are forwarded to the Executive Committee for initial approval to initiate detailed due diligence procedures.

Risk Management Department

The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Group. It ensures that there are adequate control procedures in place such that the risks exposed are within the approved limits.

Internal Audit

Risk management processes throughout the Group are audited at least annually by the Internal Audit Department, based on the risk-based audit plan approved by the Audit Committee. Audit staff examine both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, then reports its findings and recommendations to the Audit Committee.

Risk Management and Reporting Structure

Currently, the Group's assets mainly comprise cash and balances with banks, due from financial institutions, receivables and investments (including investment in real estate, investment in securities and investment in associate). Balances with banks and due from financial institutions represent deposits with GCC incorporated banks with investment grade credit ratings. Investments comprise mainly retentions in the Bank's investment offerings, which are illiquid.

Monitoring and controlling risks is primarily performed based on limits approved by the Board. These limits reflect the business strategy and market environment of the Group as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Group also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Excessive risk concentration

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

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

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

19 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Being a wholesale investment bank, the Group is involved in investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Shari'ah Board. Credit risk arises largely through balance with banks, short-term placements with financial institutions, financing receivables, investment in securities and other assets.

The Group manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. Counterparty limits are established with the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to revision at the time of renewal of the facility.

The Board has delegated responsibility for the management of credit risk to its Executive Management Committee. EMC is the highest management-level authority on all credit exposures. The overall role of EMC is to facilitate the business of the Group in the most effective and efficient manner within the risk guidelines specified by the Board. Prior to funding a facility, and regardless of its size, the EMC provides an independent assessment of the opportunity, highlighting key risks prior to commitment.

The RMD regularly monitors the level of risk within the Group's portfolio to ensure that appropriate level of economic capital is maintained. This process ensures that the required risk capital is below the available equity, which results in a positive equity cushion. The RMD ensures that the Bank maintains appropriate asset diversification by geography, industry and investment type.

Maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position except for investment securities (equity-type) which is already disclosed in note 20. The figures represent gross exposure net of any provision for impairment, without taking into account any collateral held and other credit mitigants

	Maximum exposure	
	31 December 2019	31 December 2018
Balances with banks	**2,845**	2,476
Placements with financial institutions	**9,586**	14,572
Investment Securities (Sukuk)	**4,570**	501
Other financial assets	**25**	220
	17,026	17,769

Credit quality per class of financial assets

The table below analyses the Group's maximum credit exposure where the credit quality is reflected by external credit ratings (S&P, Moody's, Fitch and Capital Intelligence) of the counterparties where relevant:

	31 December 2019	31 December 2018
Credit rating:		
A- and better	**-**	7
Ba2 and better	**7,022**	2,822
Unrated	**10,004**	14,940
	17,026	17,769

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

19 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Ageing of financial assets

31 December 2019	Neither past due not impaired	Past due but not impaired	Individually impaired	Impairment / provisions	Total
Balances with banks	2,845	-	-	-	2,845
Placements with financial institutions	9,586	-	-	-	9,586
Investment securities (sukuk)	4,570	-	-	-	4,570
Other financial assets	25	-	-	-	25
	17,026	-	-	-	17,026

31 December 2018	Neither past due not impaired	Past due but not impaired	Individually impaired	Impairment / provisions	Total
Balances with banks	2,476	-	-	-	2,476
Placements with financial institutions	14,572	-	-	-	14,572
Investment securities (sukuk)	501	-	-	-	501
Other financial assets	220	-	-	-	220
	17,769	-	-	-	17,769

The ECL on the financial assets is not significant for recognition purposes due to short-term nature and creditworthiness of treasury counterparties

b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations associated with financial liabilities.

The main action to manage the Group's liquidity is through the adherence to limits on liquidity mismatches. These include the limits of the cumulative excess of maturing liabilities over assets in the short-term and limits on dependence on short-dated funds.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	Gross undiscounted cash flows				
At 31 December 2019	Less than 3 months	3 to 12 months	Over 1 year	Total	Carrying value
Other financial liabilities	969	321	539	1,829	1,829
Total financial liabilities	969	321	539	1,829	1,829
Commitments	38	114	32	184	184

	Gross undiscounted cash flows				
At 31 December 2018	Less than 3 months	3 to 12 months	Over 1 year	Total	Carrying value
Financing liabilities	4,394	-	-	4,394	4,394
Other financial liabilities	1,731	1,201	1,033	3,965	3,965
Total financial liabilities	6,125	1,201	1,033	8,359	8,359
Commitments	38	115	184	337	337

As at 31 December 2019, the Group's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are 10.97 and 137.45%, respectively. The minimum required ratio by the CBB is 100% for both LCR and NSFR.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

19 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks

Market risk is the risk that changes in market prices, such as profit rates, equity prices, foreign exchange rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises equity position risk, profit rate risk, commodities risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group is not exposed to commodities or price risk as there is no commodity holding either in the banking or trading book. Market risk for the Group arises only on account of its foreign exchange exposure and listed equities in the banking book.

The Group manages its market risk exposures by limiting the exposure to listed equities and foreign exchange exposure and evaluating each new product and activity with respect to the market risk introduced by it.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Certain investments and other financial assets and liabilities are in other currencies and give rise to foreign currency risk.

The Bahraini Dinar (BHD), Saudi Riyal (SAR) and UAE Dirham (AED) are pegged to the US$ and resultantly positions in these currencies are not considered to represent significant currency risk. The Group had the following net foreign currency exposures at 31 December 2019:

	31 December 2019	31 December 2018
Euro	28,642	29,967
GBP	(57)	(56)
	28,585	29,911

Positions are monitored regularly and the Group is not exposed to any significant currency risk.

	Change in currency rate % exchange rate (+/-)	31 December 2019 Effect on net loss/equity (+/-)	31 December 2018 Effect on net loss/Equity (+/-)
	%	US$ '000	US$ '000
Euro	10%	2,864	2,997
GBP	10%	(6)	(6)

Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2019, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus US$ 125 (2018: US$ 128 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The Group also has unquoted investments carried at fair value using either net asset value or valuations from independent valuers. Based on the values at 31 December 2019, a change in the valuation of 5% would change the value of these investments by plus or minus US$ Nil (2018: US$ 132 thousand) with a corresponding increase or decrease in equity, except in case of further decline on impaired investments which will result in loss being taken to consolidated statement of income.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its counterparties repay or request repayment earlier or later than expected. The Group is not exposed to any significant prepayment risk.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

19 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risks (continued)

Profit rate risk in banking book

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised based on contractual repayment arrangements:

31 December 2019	Up to 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Total
Assets					
Placements with financial institutions	5,433	4,153	-	-	9,586
Investment securities (sukuk)	4,570	-	-	-	4,570
Total profit rate sensitive assets	**10,003**	**4,153**	-	-	**14,156**
Liability					
Financing liabilities	-	-	-	-	-
Total profit rate sensitive liabilities	-	-	-	-	-
Profit rate sensitivity gap	**10,003**	**4,153**	-	-	**14,156**

31 December 2018	Up to 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Total
Assets					
Placements with financial institutions	14,572	-	-	-	14,572
Investment securities (sukuk)	501	-	-	-	501
Total profit rate sensitive assets	15,073	-	-	-	15,073
Liability					
Financing liabilities	4,394	-	-	-	4,394
Total profit rate sensitive liabilities	4,394	-	-	-	4,394
Profit rate sensitivity gap	10,679	-	-	-	10,679

The Group does not have floating rate non-trading financial assets or liabilities.

(d) Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank applies the Basic Indicator Approach ('BIA') to measure operational risk and has implemented operational risk management framework. The operational risk management framework consists of the following: i) 'Risk Control and Self-Assessment': Self-assess operational risks by going through key business processes end-to-end; ii) Evaluate the adequacy of existing process controls; iii) Implement control modifications to reduce operational risks and determine residual risks; and iv) Monitor and report operational risk events to senior management and the Board.

The Group has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") to enable the Group to survive a disaster and to re-establish normal business operations. The DR&BCP will enable the Group to minimize interruptions to business service operations, resume critical operations within a specified time after a disaster, minimize financial loss due to disruptions, limit the severity of the disruption, expedite the restoration of services and maintain a positive public image of the Bank.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed, willing parties (seller and buyer) in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

Valuation techniques

Fair value of quoted securities are derived from quoted market prices in active markets. In case of unquoted securities, the fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The fair value of unquoted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor, the market value of a comparable company or other proprietary valuation models.

The fair value of other financial instruments on the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3 techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
i. fair value through income statement	-	-	26,511	**26,511**
ii. fair value through equity	2,503	-	-	**2,503**
	2,503	**-**	**26,511**	**29,014**

31 December 2018	Level 1	Level 2	Level 3	Total
iii. fair value through income statement	-	-	36,560	36,560
iv. fair value through equity	2,557	-	2,647	5,204
	2,557	-	39,207	41,764

Movements in level 3 financial instruments

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	31 December 2019	31 December 2018
At 1 January	39,207	50,385
Fair value changes	(12,696)	(11,178)
Purchases during the year	-	-
Disposals during the year	-	-
Sales and transfers into Level 3	-	-
At 31 December	**26,511**	39,207

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2019.

For investment securities the Bank adjusted the discount rate ± 1% and carrying values ± 5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

21. SHARI'AH SUPERVISORY BOARD

The Group's independent Shari'ah Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'ah principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'ah principles.

22. EARNINGS PROHIBITED BY SHARI'AH

Earnings prohibited by Shari'ah, if earned are set aside for charitable purposes or otherwise dealt with in accordance with directions of the Shari'ah Supervisory Board. During the year, the Group does not have any earnings which are prohibited by Shari'ah.

23. ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits. Zakah payable by the shareholders is computed by the Bank, based on the method prescribed by the Bank's Shari'ah Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders for the year ended 31 December 2019 is US$ 0.002 per share (2018: US$ 0.002 per share).

24. ASSETS UNDER MANAGEMENT

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position. In 2019, total assets under management amounted to US$ 16,070 (2018: US$ 40,731).

25. CAPITAL MANAGEMENT

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

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

- *Tier 1 capital: includes CET1 and AT1*

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

For The Year Ended 31 December 2019 - US$ 000'S

25. CAPITAL MANAGEMENT (continued)

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

The Group's regulatory capital position as at 31 December was as follows:

	31 December 2019	31 December 2018
Total risk-weighted exposures	**218,034**	268,158
CET1 capital	**42,597**	59,110
Tier 1 capital	**42,597**	59,110
Total capital	**42,597**	59,110
% of Total risk weighted exposures (CAR)		
CET1 capital adequacy ratio	**19.54%**	22.04%
Tier1 capital adequacy ratio	**19.54%**	22.04%
Total capital adequacy ratio	**19.54%**	22.04%
Minimum required capital adequacy ratio	**12.50%**	12.50%

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors. The minimum required capital adequacy ratio by the CBB is 12.50% and the Group complied with this requirement at all times.

During the year, the Group incurred losses of US$ 18.95 million and the Group's total equity as at 31 December 2019 was US$ 42.62 million which is less than the minimum capital requirement of US$ 100 Million required under LR Module of Volume 2 of the Central Bank of Bahrain (CBB) rule book (LR 2.5.2B). The shareholders vide resolution dated 18 July 2019 have decided to convert the Bank to a 'Category 1' investment entity and have submitted the application for the same to the CBB. The minimum capital required for Category 1 investment entity is US$ 2.65 million.

26. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisation

ADDITIONAL PUBLIC DISCLOSURES AS AT 31 DECEMBER 2019

Contents

Public Disclosures

As at 31 December 2019 - (US$ 000'S)

1. REGULATORY CAPITAL DISCLOSURES

1.1 Introduction

The disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined for Islamic banks in its Public Disclosure Module of Volume 2 of the CBB Rulebook (the "PD Module"). Rules concerning the disclosures under this section are applicable to International Investment Bank B.S.C. (c) ("IIB" or the "Bank") being a locally incorporated Bank with an Islamic wholesale banking license and subsidiaries (together known as the "Group"). This document should be read in conjunction with the consolidated financial statements as at 31 December 2019 and the qualitative disclosures in the annual report for the year ended 31 December 2019. Information already presented in the consolidated financial statements is not repeated.

In order to support its business and maximise shareholder value, the Group's capital management ensures that the Group maintains adequate risk capital and complies with the capital requirements mandated by the CBB that include a healthy capital ratio. The primary concern is capital protection from loss.

The Group manages the risk capital to cover risks inherent in the business, especially credit, market and operational risks. The adequacy of the Group's regulatory capital base is monitored primarily using the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the CBB in supervising Bahrain-incorporated banks. The principal ratio is the Capital Adequacy Ratio ("CAR") that measures total qualifying capital held by an institution in relation to its risk-weighted assets.

Regulatory capital consists of Tier 1 capital and Tier 2 capital. The Group's capital base is all classified as Tier 1 capital and comprises share capital net of treasury shares, statutory reserve, share premium, accumulated deficit, current year loss and investment fair value reserve, where applicable.

There have been no changes to the capital structures during the year.

1.2 Basis of Consolidation for Accounting and Regulatory Purposes

For the purpose of preparation of consolidated financial statements, the Bank consolidates all subsidiaries which are wholly owned or exercises significant control over them. The subsidiaries are consolidated from the date of acquisition being the date on which the Group obtains control and continues until the control ceases. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The principal subsidiaries not consolidated for regulatory purposes are as follows (balances are as at 31 December 2019 as per the latest audited financial statements of the subsidiaries):

Subsidiaries	Country of Incorporation	Total Assets US$ '000	Total Liabilities US$ '000	Description
IB France Investments Holding B.S.C. (c)	Kingdom of Bahrain	1,656	42	Investment holding vehicle for property lease
IIB German Property Company Limited	Cayman Islands	463	29	Investment holding vehicle for property lease
IIB Aircraft Lease SPC Limited	Cayman Islands	99	25	Purchase and lease of aircraft to airline company

For the purpose of preparation of Regulatory Capital and the calculation of the CAR, the Bank risk weights all unconsolidated assets including investments in subsidiaries in accordance with the CBB Rulebook.

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

1. REGULATORY CAPITAL DISCLOSURES (continued)

1.3 Composition of Capital Disclosure

Table 1. Statement of financial position under the regulatory scope of consolidation

The table below shows the link between the consolidated statement of financial position in the published consolidated financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	31 December 2019		
	Statement of financial position as per published consolidated financial statements (US$ '000)	Statement of financial position as per regulatory reporting (US$ '000)	Reference
Assets			
Cash and balances with banks	2,852	634	
Placements with financial institutions	9,586	9,586	
Investment securities	33,584	36,050	
of which related to insignificant investments in financial entities under CET1		-	G
of which related to significant investments in financial entities under CET1		-	
of which related to other investments		36,050	
Investment in real estate	-	816	
Equity-accounted investees	-	-	
Other assets	218	886	
Total assets	**46,240**	**47,972**	
Liabilities			
Financing liabilities	-	-	
Other liabilities	1,829	5,375	
Total liabilities	**1,829**	**5,375**	
Owners' Equity			
Share capital	109,996	109,996	A
Treasury shares	(6,798)	(6,798)	B
Share premium	19,645	26,603	C
Statutory reserve	6,980	5,589	D
Accumulated losses	(87,475)	(67,539)	F
Investment fair value reserve	272	(25,254)	E
Equity attributable to shareholders of the Bank	**42,620**	**42,597**	
Non-controlling interests	1,791	-	
Total owners' equity	**44,411**	**42,597**	
Total liabilities and owners' equity	**46,240**	**47,972**	

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

1. REGULATORY CAPITAL DISCLOSURES (continued)

Table 2. Composition of regulatory capital

The table below provides a detailed breakdown of the Bank's regulatory capital components, including all regulatory adjustments. The table also provides reference to the comparison displayed in Table 1 between accounting and regulatory statement of financial positions:

		31 December 2019	
		Components of regulatory capital (US$ '000)	Reference
	Common Equity Tier 1 Capital: Instruments and Reserves		
1	Directly issued qualifying common share capital plus related stock surplus	109,996	A
2	Retained earnings	(67,539)	F
3	Accumulated other comprehensive income (and other reserves)	6,938	=C+D+E
4	*Not applicable*	-	
5	Common share capital issued by subsidiaries and held by third parties (allowed in group CET 1)	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**49,395**	
	Common Equity Tier 1 Capital: regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securatisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	*Not applicable*	-	
15	Defined-benefit pension fund net assets	(6,798)	B
16	Investment in own securities	-	
17	Reciprocal crossholding in common equity	-	
18	Investment in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	G
19	Significant investment in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investment in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common Equity Tier 1**	**(6,798)**	
29	**Common Equity Tier 1 capital (CET1)**	**42,597**	

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

1. REGULATORY CAPITAL DISCLOSURES (continued)

		31 December 2019	
		Components of regulatory capital (US$ '000)	Reference
	Additional Tier 1 Capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 capital before regulatory adjustments**	-	
	Additional Tier 1 Capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal crossholdings in Additional Tier 1 instruments	-	
39	Investment in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investment in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	CBB specific regulatory adjustments	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	**Additional Tier 1 Capital (AT1)**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	42,597	
	Tier 2 Capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	-	
51	**Tier 2 capital before regulatory adjustments**	-	
	Tier 2 Capital: regulatory adjustments		
52	Investment in own Tier 2 instruments	-	
53	Reciprocal crossholdings in Tier 2 instruments	-	
54	Investment in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
55	Significant investment in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	-	
59	**Total capital (TC = T1 + T2)**	42,597	

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

1. REGULATORY CAPITAL DISCLOSURES (continued)

		31 December 2019	
		Components of regulatory capital (US$ '000)	Reference
60	**Total risk-weighted assets**	**218,034**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	19.54%	
62	Tier 1 (as a percentage of risk weighted assets)	19.54%	
63	Total capital (as a percentage of risk weighted assets)	19.54%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	-	
65	of which: capital conservation buffer requirement	2.50	
66	of which: bank specific countercyclical buffer requirement	N/A	
67	of which: D-SIB buffer requirement	N/A	
68	Common Equity Tier 1 available to meet buffers (as percentage of risk weighted)	-	
	National minima including CCB (where different from Basel III)		
69	CBB Common Equity Tier 1 minimum ratio	9.00%	
70	CBB Tier 1 minimum ratio	10.50%	
71	CBB total capital minimum ratio	12.50%	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-	
78	*Not applicable*	-	
79	*Not applicable*	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 January 2019 and 1 January 2023)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

1. REGULATORY CAPITAL DISCLOSURES (continued)

Table 3. Capital requirement by type of Islamic financing contracts (PD-1.3.17)

The following table summarizes the capital requirements by type of Islamic financing contracts:

	31 December 2019	
	Risk Weighted Amount (US$ '000)	Capital requirements (US$ '000)
Type of Islamic financing contracts		
Wakala placements	1,917	240
	1,917	240

	31 December 2019		
	On- & Off Balance Sheet Credit Exposures before CRM (US$ '000)	Credit Risk Weighted Assets (US$ '000)	Capital requirements (US$ '000)
Cash items	7	-	-
Claims on sovereigns	4,570	-	-
Claim on banks	10,214	2,048	256
Investments in equity securities and sukuk	25,091	157,060	19,633
Holding of real estate	7,205	28,821	3,602
Other assets	885	885	111
	47,972	188,814	23,602

Table 4. Capital requirement for market risk (PD-1.3.18)

The following table summarizes the amount of exposures subject to the standardized approach of market risk and related capital requirements:

	31 December 2019 (US$ '000)
Market Risk - Standardized Approach	
Price risk	-
Equity position risk	-
Foreign exchange risk	2,093
Commodities risk	-
Total of Market Risk - Standardized Approach	2,093
Multiplier	12.5
Total Market Risk Weighted Exposures	26,163
Minimum Capital Requirement (12.5%)	3,270

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

1. REGULATORY CAPITAL DISCLOSURES (continued)

	31 December 2019 (US$ '000)		
Indicators of Operational Risk			
Year	**2016**	**2017**	**2018**
Gross Income	(4,406)	2,632	631
Average Gross Income			**1,632**
Multiplier			12.5
			20,400
Eligible portion for the purpose of the calculation			15%
Total Operational Risk Weighted Exposures			**3,060**
Minimum Capital Requirement (12.5%)			**383**

1.4 Governance Arrangements, Systems and Controls Employed by the Bank to Ensure Shari'ah Compliance (PD-1.3.10(cc))

To ensure compliance with Islamic Shari'ah principles, IIB's Shari'ah Review Department reviews the documentation relating to the Bank's day-to-day transactions, reviews policies and procedures and conducts regular departmental reviews. The Shari'ah Supervisory Board meets at least four times a year to review all investment products and business activities, approve the Bank's consolidated financial statements including meeting applicable AAOIFI standards and participate with management in the development of suitable investment products and services. IIB's Shari'ah Supervisory Board comprises three prominent Bahraini Islamic scholars who provide the Bank with pragmatic Islamic opinions.

In addition, further verification to ensure Shari'ah compliance is performed by IIB's Internal Audit function and by expert Shari'ah consultants who provide an annual external audit report on the Bank's operations. All parties have confirmed that the Bank continued to be Shari'ah-compliant throughout the year.

1.5 Board Remuneration

The directors receive an attendance fee of US$ 1,000 per meeting attended either in person or by teleconference, together with the reimbursement of actual travel and accommodation expenses in connection with attending Board of Directors and Board Committee meetings. No retainer fees were paid to the directors during the year.

1.6 Displaced Commercial Risk

Displaced Commercial Risk ("DCR") refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Bank does not have DCR as it does not have any profit-sharing investment accounts (PSIAs).

1.7 Highly Leveraged Counterparties

The Bank assess counterparties through financial and non-financial due diligence and uses CBB's definition of Highly Leveraged Counterparties to determine exposure to them. The Bank does not have exposures to any Highly Leveraged Counterparties.

1.8 Past Due and Impaired Islamic Financing

The Group defines non–performing facilities as the facilities where the principal or profit is overdue for a period of 90 days or more. These exposures are placed on a non-accrual status with income being recognized to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue installments and payments.

As a policy, the Group has placed on a non- accrual status any facility where there is reasonable doubt about the collectability of the receivable irrespective of whether the customer concerned is currently in arears or not.

Financing receivables are stated at cost less impairment allowances. Specific provisions are created for impairment where losses are expected to arise on non-performing contracts. These assets are written off when they are considered to be uncollectable to reduce all impaired assets to their expected realizable values. Deferred income and provision for impairment are netted off against the related receivables. The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired.

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

1. REGULATORY CAPITAL DISCLOSURES (continued)

1.8 Past Due and Impaired Islamic Financing (continued)

Impairment losses on receivables and debt-type instruments at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognized in the consolidated statement of income and reflected in an allowance account against receivables and debt-type instruments at amortized cost. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

As at 31 December 2019, the Bank has no impaired or past due Islamic financing.

1.9 Change in Auditors During the Year (PD-6.1.1)

Following the change during 2016, the Board of Directors and Management have decided not to rotate the external auditors during the year ended 31 December 2019.

1.10 Recourse Transactions

The Bank does not currently have any obligations with respect to recourse transactions.

1.11 Restructuring of Credit Facilities

No facilities were restructured during the year 2019.

1.12 Liquidity Ratios (PD-1.3.37)

The following table summarizes the liquidity ratios as at:

	31 December 2019
Liquid assets to total assets	42.19%
Short term assets to short term liabilities	1331.78%

Formula is as follows:

Liquid Assets to Total Assets = (Cash and balances with banks + Placements with financial institutions + Sukuk + Quoted investments) / Total Assets

Short-term Assets to Short-term Liabilities = Assets with up to one year maturity / Liabilities with up to one year maturity

1.13 Equity Price Risk

1.13.1 Equity Price Risk Management

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2019, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus US$ 125 thousand (31 December 2018: US$ 128 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements.

An assessment is made at each year end to determine whether there is any objective evidence that equity investments may be impaired. Any impairment for significant and prolonged decline in the value of investments is reflected as a write down of investments. Any subsequent increase in their fair value is recognized directly in equity.

1.13.2 Equity Position Risk in the Banking Book (PD-1.3.31(b), (c) & (f))

Equity price risk is the risk that the fair values of the equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The accounting policies, including valuation methodologies and their related key assumptions, are consistent with those disclosed in the consolidated financial statements as at 31 December 2019. Equity type instruments carried at fair value through equity and investment properties are kept for capital gain purposes, all other investments are kept for strategic long-term holding.

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

1. REGULATORY CAPITAL DISCLOSURES (continued)

1.13.2 Equity Position Risk in the Banking Book (PD-1.3.31(b), (c) & (f)) (continued)

The following table summarizes the total and average gross exposure of equity-based financing structures by types of financing contracts and investments as at 31 December 2019:

	Total gross exposure (US$ '000)	* Average gross exposure over the year (US$ '000)	Publicly Traded (US$ '000)	Privately held (US$ '000)	Capital requirement (US$ '000)
Fair value through income statement	26,511	29,134	-	26,511	3,314
Fair value through equity	2,503	2,431	2,503	-	313
	29,014	31,565	2,503	26,511	3,627

** Average balances are computed based on quarter-end balances.*

1.14 Equity Gains or Losses in the Banking Book (PD-1.3.31(d) to (e))

The following table summarizes the cumulative realized gains during the year ended:

	31 December 2019 (US$ '000)
Realized gains arising from sale of investment securities	191

1.15 Rate of Return Risk Management

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities:

31 December 2019	Up to 3 Months (US$ '000)	3 months to 1 year (US$ '000)	1 to 5 years (US$ '000)	Above 5 Years (US$ '000)	Total (US$ '000)
Assets					
Placements with financial institutions	5,433	4,153	-	-	9,586
Investment securities (sukuk)	4,570	-	-	-	4,570
Total profit rate sensitive assets	10,003	4,153	-	-	14,156
Liabilities					
Financing liabilities	-	-	-	-	-
Total profit rate sensitive liabilities	-	-	-	-	-
Profit rate sensitivity gap	**10,003**	**4,153**	**-**	**-**	**14,156**

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant consolidated statement of financial position) on floating rate non-trading financial assets and liabilities would be an increase (decrease) of profit by US$ 283 thousand (31 December 2018: US$ 214 thousand).

The rate of return risk is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers. The Group is not exposed to any significant rate of return risk and is aware of the factors that give rise to rate of return risk. Factors that possibly will affect rate of return may include an increase in long-term fixed rates in the market. The Bank is also aware of the fact that in general, profit rates earned on assets reflect the benchmark of the previous period and do not correspond immediately to changes in increased benchmark rates.

The Group uses a combination of mismatch gap limits to measure and control its rate of return risk. Mismatched positions are regularly monitored to ensure that mismatch is maintained within established limits.

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

1. REGULATORY CAPITAL DISCLOSURES (continued)

1.16 Counterparty Credit Risk

1.16.1 Introduction

A counterparty is defined as an obligor (individual, company, other legal entity), a guarantor of an obligor, or person receiving funds from the Group. It also includes the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

The measure of exposure reflects the maximum loss that the Group may suffer in case the counterparty fails to fulfill its commitments. Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. Large exposure is any exposure whether direct, indirect or funded by restricted investment accounts to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's Capital Base. The Group has adopted Standardized Approach to allocate capital for counterparty credit risk.

1.16.2 Credit Limit Structure

The Bank has put in place an internal counterparty limit structure which is based on internal or external ratings for different types of counterparties. The Bank has also set concentration limits as a percentage of shareholders equity. In case of a counterparty rating degrade, the Bank may require further collateral or advise the counter party to reduce its exposure on a case by case basis.

1.16.3 Reporting

The Bank reports large counterparty exposures to CBB and senior management on a periodic basis. The Bank reports the exposures on a gross basis without any offset.

1.16.4 Early Warning Indicators

The Bank maintains a strong focus on identification of signs of deterioration in credit quality at an early stage in order to take remedial measures before the facility becomes substandard or doubtful.

2. CAPITAL STRUCTURE

2.1 Capital Base

The Bank's capital base comprises of Tier 1 capital which includes nominal share capital, share premium, statutory reserve, accumulated deficit, current year net loss and unrealised gains and losses from fair valuing equity securities less the cost of treasury shares, plus Tier 2 capital which consists of part of the unrealised gains arising from fair valuing equities less the aggregate amounts that exceed the regulatory large exposures limit.

The issued and paid up share capital of the Bank was US$ 109,996 thousand at 31 December 2019 and 2018, comprising of 109,996 thousand shares of US$ 1 each.

The Bank's regulatory capital base of US$ 42.6 million as at 31 December 2019 (31 December 2018: US$ 59.1 million) comprised Tier 1 capital of US$ 42.6 million (31 December 2018: US$ 59.1 million) and Tier 2 capital of nil (31 December 2018: nil).

There have been no changes to the capital structures during the year.

There are no restrictions in distributing profits by the subsidiaries of the Bank. However, such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the Bank is subject to local rules and regulations. The Bank is not subject to any restriction to support its subsidiaries in the form of deposits or capital.

2.2 Capital Adequacy

The purpose of capital management is to ensure the efficient utilization of capital in relation to business requirements and growth, risk profile and shareholders' returns. But the primary concern is capital protection from loss.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may issue ordinary shares, buy back ordinary shares or adjust the amount of dividend payment to shareholders. No changes have been made in the objectives, policies and processes from the previous years.

Public Disclosures (continued)
As at 31 December 2019 - (US$ 000'S)

2. CAPITAL STRUCTURE (continued)

2.2 Capital Adequacy (continued)

As compared to the minimum CAR of 12.5% prescribed by the CBB, the Bank's CAR at 31 December 2019 was 19.54% (31 December 2018: 22.04%).

The ratio is derived from guidelines issued by CBB which are compatible with the "Basel III" Accord issued by the Basel Committee on Banking Supervision. The CAR measures total qualifying capital held by an institution in relation to its risk-weighted assets. In common with other banks incorporated in Bahrain, the Bank commenced the ongoing measurement of its capital adequacy under the "Basel III" rules from 1 January 2015.

2.3 Profile of Risk-weighted Assets and Capital Charge

The Bank has adopted the "Standardised" approach for credit risk and market risk and "Basic Indicator" approach for operational risk for regulatory reporting purposes. IIB's risk-weighted capital requirement for credit, market and operational risks as at 31 December 2019 are summarised below.

2. 4 Credit Risk Weighted Assets

The descriptions of the counterparty classes along with the risk weights to be used to derive the risk weighted assets are:

Cash and balances with banks and placements with financial institutions

Cash has a nil risk weighting. Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies but short term claims on locally incorporated banks (whether rated or unrated) are assigned a risk weighting of 20% where such claims have an original maturity of three months or less and are denominated and funded in either Bahraini Dinars or US Dollars. Claims on banks outside Bahrain with a credit rating of A+ to A- are assigned a 50% risk weighting.

Receivables and other assets

Receivables and other assets have a risk weighting of 100%.

Investments including assets held for sale and investment in associate

Investments listed on a recognised stock exchange attract a risk weighting of 100%. Unlisted investments have a 150% risk weighting and indirect holdings of real estate are assigned a risk weighting of 400%. The excess above 15% of CBB's regulatory capital on individual exposures is risk weighted at 800%. Investments in unrated funds have a 150% weighting and direct investments in real estate have a 200% weighting.

Credit exposure and risk weighted assets considered for CAR calculations comprising of banking book exposures are as follows:

As at 31 December 2019	Gross credit exposure US$ '000	Credit risk weighted assets US$ '000	Capital requirement US$ '000
Cash	7	-	-
Claims on sovereigns	4,570	-	-
Claims on banks	10,214	2,048	256
Equity investments - publicly held	2,503	2,503	313
Equity investments - privately held	73	110	14
Equity investments - with excess amount over 15%	18,565	148,522	18,565
Investments in unrated funds-unlisted	3,950	5,925	741
Holding of real estate	7,205	28,821	3,602
Other assets	885	885	111
	47,972	**188,814**	**23,602**

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

2. CAPITAL STRUCTURE (continued)

2. 4 Credit Risk Weighted Assets (continued)

As at 31 December 2018	Gross credit exposure US$ '000	Credit risk weighted assets US$ '000	Capital requirement US$ '000
Claims on sovereigns	501	-	-
Claims on banks	15,210	3,044	381
Equity investments - publicly held	2,557	2,557	320
Equity investments - privately held	4,573	6,859	857
Equity investments - with excess amount over 15%	19,130	153,040	19,130
Investments in unrated funds-unlisted	6,451	9,677	1,210
Holding of real estate	16,313	56,848	7,106
Other assets	1,285	1,285	161
	66,020	233,310	29,165

The gross credit exposure is all funded exposure and is entirely funded by capital. The Bank holds no cash collateral or eligible guarantees to mitigate credit risk. Since the period end position is representative of the risk positions of the Bank during the period, average gross exposures are not disclosed separately.

The Bank holds all its investments with the expectation of capital gains. The realised gains net of losses arising from investment sales or liquidations or buy back of shares by investee companies during the year ended 31 December 2019 were net gain US$ 0.24 million (31 December 2018: net gain US$ 3.23 million). The total net unrealised gain recognised in equity in 2019 aggregated to US$ 0.27 million (2018: US$ 0.17 million loss).

Risk concentrations of the maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the balance sheet components. There is no unfunded exposure and no significant use of master netting and collateral agreements.

	Gross credit exposure 31 December 2019 US$ '000	**Average gross credit exposure 31 December 2019 US$ '000**	Gross credit exposure 31 December 2018 US$ '000
Credit risk items:			
Placements with financial institutions*	**12,438**	**11,085**	17,048
Investments securities	**33,584**	**36,537**	42,857
Other assets	**218**	**379**	450
Total Credit Risk Exposure	**46,240**	**48,001**	60,355

** Includes balances with banks*

The above disclosure is considered to be reasonably representative of the level of credit risk of the Bank during the period, as there has been no significant fluctuation in the credit risk assets during the year ended 31 December 2019.

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

2. CAPITAL STRUCTURE (continued)

2.4.1 Distribution of the Gross Funded Exposures

(a) Geographical distribution of the gross funded exposures

The following table summarises the geographical distribution of exposure broken down into significant areas by major types of credit exposure:

As at 31 December 2019

	Placements with financial institutions US$ '000	Cash and balances with banks US$ '000	Investments Securities US$ '000	Investment in real estate US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:						
Bahrain	9,586	2,852	4,570	-	135	17,143
Europe	-	-	26,511	-	83	26,594
North America	-	-	-	-	-	-
Other GCC countries	-	-	2,503	-	-	2,503
Others	-	-	-	-	-	-
	9,586	**2,852**	**33,584**	**-**	**218**	**46,240**

As at 31 December 2018

	Placements with financial institutions US$ '000	Cash and balances with banks US$ '000	Investments Securities US$ '000	Investment in real estate US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:						
Bahrain	14,572	501	4,202	-	1,913	21,187
Europe	-	29,039	7,681	-	1,002	37,723
North America	-	-	-	-	-	-
Other GCC countries	-	13,316	-	-	7	13,324
Others	-	-	-	-	5	5
	14,572	42,856	11,883	-	2,928	72,238

(b) Industrial distribution of the gross funded exposures

The following table summarises the industrial distribution of funded exposure broken down by major types of credit exposures:

As at 31 December 2019

	Placements with financial institutions US$ '000	Cash and balances with banks US$ '000	Investments Securities US$ '000	Investment in real estate US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:						
Real estate	-	2,122	26,511	-	25	28,659
Banking and finance	9,586	628	4,570	-	-	14,783
Manufacturing	-	23	2,503	-	-	2,526
Transportation	-	72	-	-	27	99
Others	-	7	-	-	166	173
	9,586	2,852	33,584	-	218	46,240

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

2. CAPITAL STRUCTURE (continued)

2.4.1 Distribution of the Gross Funded Exposures (continued)

As at 31 December 2018

	Placements with financial institutions US$ '000	Cash and balances with banks US$ '000	Investments Securities US$ '000	Investment in real estate US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:						
Real estate	-	1,656	44,828	-	187	46,671
Banking and finance	14,572	639	501	-	5	15,717
Manufacturing	-	23	2,929	-	-	2,952
Transportation	-	-	-	-	18	18
Others	-	158	6,481	-	240	6,879
	14,572	2,476	54,739	-	450	72,237

2.4.2 Single Counterparty Exposures

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base.

The Bank's exposure in excess of 15% of the obligor limit to individual counterparties based on regulatory "total available capital" at 31 December 2019 is shown below:

	31 December 2019			31 December 2018		
	C.A.R. Limit (15%) US$ '000	On balance sheet exposure US$ '000	Excess over permissible limit US$ '000	C.A.R. Limit (15%) US$ '000	On balance sheet exposure US$ '000	Excess over permissible limit US$ '000
Counterparty A	6,390	26,511	(20,121)	8,867	29,039	(20,172)
			(20,121)			**(20,172)**

Capital deduction is equally deducted from Tier 1 and Tier 2.

There were no off-balance sheet exposures during the year (2018: nil).

The table below shows past due and individually impaired financial assets:

As at 31 December 2019

	Neither past due nor impaired US$ '000	Past due but not impaired US$ '000	Past due and individually impaired US$ '000	Total US$ '000
Cash and balances with banks	2,845	-	-	2,845
Placements with financial institutions	9,586	-	-	9,586
Investment securities (sukuk)	4,570	-	-	4,570
Other assets	25	-	-	25
	17,026	**-**	**-**	**17,026**

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

2. CAPITAL STRUCTURE (continued)

2.4.2 Single Counterparty Exposures (continued)

As at 31 December 2018

	Neither past due nor impaired US$ '000	Past due but not impaired US$ '000	Past due and individually impaired US$ '000	Total US$ '000
Cash and balances with banks	2,476	-	-	2,476
Placements with financial institutions	14,572	-	-	14,572
Investment securities (sukuk)	501	-	-	501
Other assets	220	-	-	220
	17,769	-	-	17,769

Past due and individually impaired are overdues of more than 1 year but less than 3 years.

2.5 Market Risk Weighted Assets

The Bank's capital charge in respect of market risk in accordance with the Standardized Approach is as follows:

	31 December 2019		31 December 2018	
	Risk weighted assets US$ '000	Year-end capital requirement US$ '000	Risk weighted assets US$ '000	Year-end capital requirement US$ '000
Foreign exchange risk	26,158	2,093	29,911	2,393

	31 December 2019 (US$ '000)	Maximum (US$ '000)	Minimum (US$ '000)
Market Risk - Standardised Approach			
Price risk	-	-	-
Equity position risk	-	-	-
Foreign exchange risk	2,093	2,331	2,093
Total of Market Risk - Standardised Approach	**2,093**	**2,331**	**2,093**
Multiplier	12.5	12.5	12.5
Total Market Risk Weighted Exposures	**26,163**	**29,138**	**26,163**
Minimum Capital Requirement (12.5%)	**3,270**	**3,642**	**3,270**

The Bank has no exposure to profit rate risk, equity position risk or options risk, as the Bank does not maintain any trading book.

Positions are monitored on a quarterly basis to ensure they are maintained within established limits. The Bank's exposure in foreign currencies consists of exposures from banking activities, as it does not have a trading book in foreign currencies.

	31 December 2019 Assets/liabilities, net US$ '000	31 December 2018 Assets/liabilities, net US$ '000
Euro	26,218	29,967
Pound Sterling	(60)	(56)
Market risk weighted exposure	26,158	29,911

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

2. CAPITAL STRUCTURE (continued)

2.6 Operational Risk

In accordance with the Basic Indicator approach methodology, operational risk and related capital requirements are as follows:

	Gross income		
	2016	2017	**2018**
	US$ '000	US$ '000	**US$ '000**
Total gross income	(4,406)	2,632	**631**

	31 December 2019 US$ '000	31 December 2018 US$ '000
Indicators of Operational Risk		
Average gross income multiply by number of years	1,632	2,632
Eligible portion for the purpose of calculation	15%	15%
Multiplier	12.5	12.5
Total Operational Risk Weighted Exposure	**3,060**	4,935
Minimum Capital requirement (12.5%)	**383**	617

The operational risk has been calculated by the Bank by considering the total gross income of the years in which it has earned gross profits.

3. RISK MANAGEMENT

The Board of Directors is charged with the overall responsibility for risk management. It approves and periodically reviews the risk policies and strategy of the Bank. It is assisted by the Executive Committee, Management Committee, Investment Committee and Audit & Corporate Governance Committee.

The Risk Management Committee has the overall responsibility for establishing the risk framework and strategy, principles, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Bank. It ensures that risks do not exceed the approved limits. The Risk Management Department also carries out internal capital adequacy assessments to determine the adequacy of overall capital in relation to the Bank's risk profile and formulates the strategy for maintaining the capital levels. The capital provides the Bank with a cushion to absorb losses without endangering client funds.

The various risks to which the Bank is exposed, and the principal risk management techniques are summarized below. Further information on risk management is contained in Note 19 to the annual consolidated financial statements.

3.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The principle business of the Bank is Investment Banking. The process of managing the credit risk starts at the origination of the investment activity and compliance with investment criteria, guidelines and policies. The Bank manages credit risk by setting limits for individual counterparties, countries, regions and industry sectors. Limits are authorized by the Board of Directors based on management's recommendations, monitored by the Risk Management Department and reviewed regularly by the Risk Management Committee. Details of maximum exposure to credit risk by balance sheet components, geographical region, industry sector and credit rating are contained in note 19 (a) to the annual consolidated financial statements in accordance with the requirements of International Financial Reporting Standard 7.

Information disclosed in the annual report in respect of geographical region, industry sector and credit rating are prepared in accordance with the requirement of Prudential Information Report for Islamic Banks as at 31 December 2019. The disclosures are considered to be reasonably representative of the position during 2019 as there has been no significant fluctuation in the level of credit risk assets.

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

3. RISK MANAGEMENT (continued)

3.1.1 Credit Risk Concentrations and Thresholds

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base. Individual exposures are described at Capital Structure
Section 2.4.2.

3.1.2 Excessive Risk Concentration

Bank policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio.

3.1.3 Geographical Distribution of Exposures

The geographical distribution of exposures, impaired assets and the related impairment provisions are analyzed as follows:

	31 December 2019			31 December 2018		
	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Geographical region:						
Bahrain	7,282	2,782	2,782	3,283	2,782	2,782
Europe	-	-	-	-	-	-
North America	-	-	-	-	-	-
Other GCC countries	53,752	53,752	51,249	53,453	53,453	47,657
Others	769	769	769	769	769	769
	61,803	57,303	54,800	57,505	57,004	51,208

The impaired security is reflected at fair value based on the relevant fair value as at 31 December 2019. The criteria used to allocate exposures to particular geographical areas is the country to which the funds were transferred.

3.1.4 Industrial Sector Analysis of the Exposures

The industrial sector analysis of exposures, impaired assets and the related impairment provisions is as follows:

	31 December 2019			31 December 2018		
	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Industry sector:						
Real estate	25,576	25,576	25,576	25,277	25,277	19,593
Banking and financial institutions	5,269	769	769	1,270	769	3,587
Manufacturing	30,958	30,958	28,455	30,958	30,958	28,028
Transportation	-	-	-	-	-	-
Others	-	-	-	-	-	-
	61,803	57,303	54,800	57,505	57,004	51,208

The Bank has no unfunded exposures as at 31 December 2019.

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

3. RISK MANAGEMENT (continued)

3.1.5 Large Exposures

The Bank follows the CBB's guidelines with respect to definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

The following are the large exposures of US$ 1,000,000 and over as at 31 December 2019:

Banks	Large exposure (banks) US$ '000	% of exposure to equity	Non-banks	Large exposure (non-banks) US$ '000	% of exposure to equity
Bank A	6,322	14.84%	Counterparty A	26,511	62.24%
Bank B	3,657	8.59%	Counterparty B	4,570	10.73%
Bank C	2,122	4.98%	Counterparty C	2,503	5.88%

3.1.6 Exposure by External Credit Rating

The Bank uses ratings issued by Standard & Poor's, Moody's, Capital Intelligence and Fitch to derive the risk weightings under the CBB's Basel III capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes. The following are gross credit risk exposures considered for CAR calculations comprising of banking book exposures:

	31 December 2019			31 December 2018		
	Gross credit exposure US$ '000	Rated exposure US$ '000	Unrated exposure US$ '000	Gross credit exposure US$ '000	Rated exposure US$ '000	Unrated exposure US$ '000
Cash and claims on banks	12,438	2,452	9,986	17,048	2,328	14,720
Equity portfolio	29,014	-	29,014	54,239	-	54,239
Investment security (sukuk)	4,570	4,570	-	501	501	-
Other exposures	25	-	25	220	-	220
	46,047	**7,022**	**39,025**	72,008	2,829	69,179

3.1.7 Intra-group Transactions including Exposures to Related Parties

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are on an arm's length basis and are identical to those applicable to transactions with all other parties.

Exposures to related parties:

	2019 Gross credit exposure US$ '000	2018 Gross credit exposure US$ '000
Claims on associates	-	4,179
Claims on investee companies	-	220
	-	4,399

3.1.8 Impairment of Assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

3. RISK MANAGEMENT (CONTINUED)

3.1.8 Impairment of Assets (continued)

Evidence of impairment may include indications that the investee company is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Impairment is determined as follows:

a) for assets carried at amortised cost, impairment is based on the present value of estimated future cash flows discounted at the original effective profit rate;

b) for assets carried at fair value, impairment is the difference between cost and fair value; and

c) for assets carried at cost, impairment is based on the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

3.1.9 Impairment Losses on Financial Assets

On a quarterly basis, the Bank assesses whether any provision for impairment should be recorded in the consolidated statement of income. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ resulting in future changes in such provisions.

3.2 Liquidity Risk and Funding Management

Liquidity risk is the risk that the Group will be unable to meet its obligations associated with financial liabilities. The Assets & Liabilities Committee monitors future cash flows and liquidity required for working capital and investment acquisition. The Bank's investments generally have a long-term maturity and hence, as a matter of policy, the long-term investments are funded from IIB's own capital. The Bank maintains moderate cash and cash equivalent balances and also has limited access to geographically diverse funding sources, although no additional deposit liabilities or long-term funding by external counterparties were booked during 2019. The ratio of liquid assets (defined as cash, balances with banks, placements with financial institutions, sukuk and quoted investments) to total assets at 31 December 2019 is 42.19% (2018: 27.83%). Details of liquidity risk and funding management are contained in Note 19 b) to the consolidated financial statements.

The table below shows an analysis of financial assets and liabilities as at 31 December 2019 analysed according to when they are expected to be recovered or settled.

	Up to 3 months US$ '000	3 months to 1 year US$ '000	Total up to 1 year US$ '000	1-3 years US$ '000	3-5 years US$ '000	No stated maturity US$ '000	Total US$ '000
ASSETS							
Cash and balances with banks	2,852	-	2,852	-	-	-	2,852
Placements with financial institutions	5,433	4,153	9,586	-	-	-	9,586
Investment securities	4,570	-	4,570	29,014	-	-	33,584
Other assets	89	83	172	6	2	38	218
Total assets	**12,944**	**4,236**	**17,180**	**29,020**	**2**	**38**	**46,240**
LIABILITIES							
Other liabilities	969	321	1,290	539	-	-	1,829
Total liabilities	969	321	1,290	539	-	-	1,829
Commitments	38	114	152	32	-	-	184
Net gap	**11,936**	**3,802**	**15,738**	**28,448**	**2**	**38**	**44,227**

The maximum residual maturity of the Bank's exposures as at 31 December 2019 is 5 years.

The table below shows an analysis of financial assets and liabilities as at 31 December 2018 analysed according to when they are expected to be recovered or settled.

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

3. RISK MANAGEMENT (continued)

3.2 Liquidity Risk and Funding Management (continued)

	Up to 3 months US$ '000	3 months to 1 year US$ '000	Total up to 1 year US$ '000	1-3 years US$ '000	3-5 years US$ '000	No stated maturity US$ '000	Total US$ '000
ASSETS							
Cash and balances with banks	2,476	-	2,476	-	-	-	2,476
Placements with financial institutions	14,572	-	14,572	-	-	-	14,572
Investment securities	-	501	501	41,764	-	-	42,265
Investment in real estate	-	-	-	11,883	-	-	11,883
equity accounted investees	-	-	-	592	-	-	592
Other assets	81	100	181	196	3	70	450
Total assets	17,129	601	17,730	54,435	3	70	72,238
LIABILITIES							
Financing liabilities	4,394	-	4,394	-	-	-	4,394
Other liabilities	497	2,026	2,523	1,441	-	-	3,964
Total liabilities	4,891	2,026	6,917	1,441	-	-	8,358
Commitments	38	114	152	185	-	-	337
Net gap	12,200	(1,539)	10,661	52,809	3	70	63,543

3.3 Market Risk

Market risk is the risk to earnings resulting from adverse movements in foreign currency rates, profit rate yield curves and equity prices. The Bank has no significant concentration of market risk and does not have a significant trading portfolio of equities or foreign currencies. It is exposed to market risk from currency rate fluctuations on its foreign currency denominated assets and liabilities.

To enable effective monitoring and managing of exposures, all market risks associated with the Bank's investments are managed and monitored using basic sensitivity analyses reflecting such factors as volatility, liquidity and concentration. The investments in unquoted equities, comprising the Bank's retentions in its investment offerings and selective participations in private placements, are generally illiquid without a ready market to effect an exit.

Note 19 c) to the consolidated financial statements details the Bank's exposure to equity price risk, foreign currency risk and profit rate risk.

3.4 Operational Risk

Operational Risk is the risk of direct or indirect loss resulting from breaches in internal controls, processing errors, inadequate information systems, fraud, or external events. Its impact can be in the form of a financial loss, loss of reputation or loss of competitive position. Operational risk is inherent in all business activities and can never be eliminated entirely but can only be mitigated or minimized. The Bank minimizes its exposure to such risk by ensuring that appropriate management control mechanisms, infrastructure, systems, internal controls and human resources are in place. IIB has developed an operational risk framework, reviewed by experienced external consultants, that provides for identification, measurement, monitoring and control of potential risk events. A number of processes are used throughout the Bank including risk and control self-assessments, key risk indicators (KRIs), event management, new product review/approval procedures and business continuity plans.

In addition, Internal Audit Department (outsourced during 2017, 2018 and 2019) issues regular reports including an annual organization-wide risk assessment and the external auditors make recommendations on internal controls and processes. Business units are responsible for managing the operational risks relevant to their activities, supported by a disaster recovery program covering computer backup, data recovery and business continuity.

Head of Risk Management maintains a risk register for capturing loss event data and events. On a quarterly basis matters logged are discussed with the departmental heads. During the current year no significant loss events occurred.

Public Disclosures (continued)

As at 31 December 2019 - (US$ 000'S)

3. RISK MANAGEMENT (continued)

3.5 Legal Risk

Legal Risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. It has professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal and Compliance Departments or external legal counsel. The Bank fully complied with all applicable laws and regulations during the year.

The Bank manages and controls the legal risks arising out of any pending legal suits/actions by taking either legal advice from in-house legal counsel or external legal experts, whenever necessary, and act accordingly.

4. INVESTMENT IN SUBSIDIARIES

The Bank has the following subsidiaries, namely:

Name of the Subsidiary	Located in	Currency		31 December 2019 US$ '000	31 December 2018 US$ '000
Istethmary Al Fareeda B.S.C. (c)	Kingdom of Bahrain	SAR	Net assets	14,810	20,290
		SAR	Net loss	(5,479)	(18,701)
Istethmary Sarajevo City Centre - I Limited	Cayman Islands	EURO	Net assets	23,424	25,245
		EURO	Net (loss) profit	(2,076)	730
Bahrain Bunny Shares & Securities Co. W.L.L.	Kingdom of Bahrain	SAR	Net (liabilities) assets	(131)	24,191
		SAR	Net loss	(24,322)	(125)
Multifamily Residential Ltd - I ("MR-I")	Cayman Islands	US$	Net liabilities	(100)	(100)
		US$	Net loss	-	(47)
Multifamily Residential Ltd - II ("MR-II")	Cayman Islands	US$	Net liabilities	(103)	(103)
		US$	Net loss	-	(47)
IIB Aircraft Lease SPC Limited	Cayman Islands	US$	Net assets	74	137
		US$	Net (loss) profit	(62)	4,101
IIB German Property Company Limited	Cayman Islands	EURO	Net assets	388	879
		EURO	Net (loss) profit	(218)	238
IIB France Investments Holding B.S.C. (c)	Kingdom of Bahrain	EURO	Net assets	1,440	1,283
		EURO	Net profit (loss)	157	(1,751)

The Bank is not exposed to currency risk in the case of investment in Istethmary Al Fareeda B.S.C. (c), Bahrain Bunny Shares & Securities Co. W.L.L, MR-I, MR-II and IIB Aircraft Lease SPC Limited as these are denominated in SAR and US$.

The effect of 10% change in foreign exchange rate on the Bank's statement of changes in owners' equity in respect of Istethmary Sarajevo City Centre - I Limited amounts to US$ 2,625 thousand (2018: US$ 2,887 thousand) and on the Bank's statement of income amounts to US$ 232 thousand (2018: US$ 86 thousand). In 2016, IIB France Investments Holding B.S.C. (c) and IIB German Property Company Limited became subsidiaries of the Bank. The effect of 10% change in foreign exchange rate on the Bank's statement of changes in owners' equity in respect of these two subsidiaries amounts to US$ 161 thousand (2018: US$ 147 thousand) and US$ 43 thousand (2018: US$ 101 thousand), respectively, and on the Bank's statement of income amounts to US$ 18 thousand (2018: US$ 207 thousand) and US$ 24 thousand (2018: US$ 28 thousand), respectively.

The Bank has a Master Forward FX Trade Agreement with a local bank for the purpose of hedging foreign currency exposures. However, the Bank has decided not to make use of this Agreement as at
31 December 2019 to hedge against the movement in foreign exchange rates of investments in foreign subsidiaries.