KHALEEJI COMMERCIAL BANK BSC

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour East Tower PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Dr. Ahmed Khalil Al-Mutawa – Chairman Abdulkarim Ahmed Bucheery – Vice Chairman Hisham Ahmed Al Rayes Sh. Ahmed Bin Isa Al Khalifa Abdulla Abdulkarim Showaiter Dr. Khalid Mohammed Al Khazraji Yousef Ibrahim Al Ghanim Mohammad Abdulmohsen Al Rashed Fawad Tariq Khan Luay Hasan Ahmadi
Acting Chief Executive Officer	:	Tawfeeq Mohamed Bastaki
Company secretary	:	Mohammed Abdulla Saleh
Auditors	:	KPMG Fakhroo, Bahrain

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2017

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In the name of Allah, the beneficent, the merciful,
Prayers and peace upon the last apostle and messenger, our prophet Muhammad.

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the annual financial statements of Khaleeji Commercial Bank (the "**Bank**") for the year ended 31 December 2017.

The Bank has invested in the institution's local and regional positioning this year, where it was successful in enhancing its activities and services through implementing a strategy of studying the market and investing in available opportunities targeting services that meet the Bank's client expectations. This has been reflected in the positive results in terms of enhancing the services and financial performance, despite the huge challenges that the banking sector is currently facing.

Year 2017 has noticed significant economic variations mainly from the geopolitical developments, which has in its nature affected the volatility of financial markets and currencies on a global and regional scale. This in addition to the main challenge that is currently facing the GCC countries in terms of diversifying their economic revenue and income streams away from oil, resulting in the regional development of implementing the Value Added Tax (VAT) at a rate of 5.00% and sin tax on various products along with elimination and redirection of various subsidies while continuing the reduction of public spending.

Overall Performance

Despite the adverse market and economic challenges the Bank, during 2017, was able to achieve the strategic goals set by the board, where the management's efforts and the trust and support of the shareholders and clients played a major role. The Bank was, in an exceptional basis, able to develop the products and services and achieve a good financial performance backed by strong liquidity, capital adequacy and effective Risk Management.

A positive indicator of the Bank's performance this year is the growth of total assets from BD 765 million in 2016 to BD 785 million in 2017, a growth of 2.6%. Net profit of BD 0.8 million in 2017 compared to BD 5.3 million in 2016. Financing assets increased by 2.1% compared to 2016 to reach BD 460.3 million. Commercial banking accounts for 80.8% of total revenue. It should be noted that the Bank avoided high concentration accounts, resulting in a decrease of 14.6% in deposits during the year from BD 581.1 million in 2016 to BD 496.0 million in 2017.

As a result, the Bank, thanks to Allah, achieved a net profit for the year 2017 of BD 0.8 million compared to BD 5.3 million achieved in 2016 and a decrease of 84.6% over the previous year. These results will contribute to achieving a lot of stability for the work system in the future and will prepare the way to achieve better financial results, God willing, in the coming years. The bank maintained a strong liquid assets rate of 22.2% and a capital adequacy ratio of 17% compared to the required regulatory requirement of 12.5%, which is higher than legal requirements.

As the Bank continued to execute its strategic plan, the Board and the Management conducted a review to ensure that assets, especially those acquired prior to the new business model reflect realisable and fair value. Based on this review the Board decided to take an amount of BD 7.5 million as provisions for the year ended 31 December 2017, such conservative approach has been taken in dealing with the assets which were impaired or likely to be impaired in the short to medium term and is in-line with the Bank's strategy implementation.

Being considered as one of the leading Islamic Financial Institution in the Kingdom of Bahrain, The Bank was able to successful cross list in Dubai Financial Market (DFM) during Q4 2017. This step is considered as a paradigm shift in the Bank's operations and embodies the focused goals towards creating a suitable environment for the shareholders to trade their shares and strengthen the Bank's share market price. Such goal was accomplished through the trust and support from shareholders that resulted from the achievements made throughout the past years. The Bank has implemented various studies for regions that maintain outstanding economic growth, and such growth the United Arab Emirates is currently witnessing has encouraged the Bank's management to choose Dubai Financial Market (DFM) as a launch platform for the Bank's shares trading outside the Kingdom of Bahrain in order to provide the best investment results for the Bank's shareholders and clients.

Furthermore the Bank, with its confidence in the economic vision 2030 that is directed towards achieving a stable and improved standard of living for all Bahraini Nationals and the creation of market opportunities for individuals and corporates operating in Bahrain, has partnered with Bahrain Institute for Banking and Finance (BIBF) and conducted "KHCB's Economic Diversification Forum" which was sponsored by Bahrain's Economic and Development Board (EDB). The Forum's aim was to shed light on the importance of economic diversification in Bahrain in which the Forum (in its first inauguration) strengthened the Bank's brand and introduced the institution as a strategic partner in the Kingdom's economic development. That in addition to highlighting the importance of collective work between the private and public sectors in supporting the national initiatives to reach towards continued stability through tackling and discussing challenges along with opportunities in various diversified sectors that the Government has adopted.

The Bank is continuing to seek enhancing it's positioning among leading Islamic Institutions in the Kingdom of Bahrain and the same is witnessed through the Bank's increasing number of clients during the year 2017. This has led to the Bank taking important growth initiatives to be implanted during 2018 and the years to come which includes enhancing the Bank's financing portfolio by introducing innovative products for individual and corporates alike.

Looking Ahead

The Board believes that the Bank has established a solid foundation from which to execute the strategic plan and capitalise on opportunities currently available in the market. In order to achieve this, the Bank will work on growing and diversifying its products and services that are offered through the branches and electronic channels in order to reach and widen the customers' base along with focus on the service/product quality that will enable improving the Bank's positioning locally and regionally. From another angle, the Bank will explore other options; which includes viable acquisitions of other entities and asset portfolios as well as forming strategic alliances or merger with other financial institutions.

In addition, the Bank believes continuation of investment in the human resource aspect is key towards achieving and overcoming the upcoming challenges, as such resource is considered as the main focal point and backbone of the institution. In addition, focus on investment in Information Technology and enhancing the isk management

Appreciation

On behalf of the Board, I would like to express my gratitude to his Majesty King Hamad Bin Isa Al Khalifa; His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister; and His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander of Bahrain Defence Force and First Deputy Prime Minister for their encouragement of the growth of the private sector and the development of the banking and finance industry in Bahrain. I also extend my thanks to all government ministries, the Central Bank of Bahrain, and Bahrain Bourse for their continued guidance and support.

Special appreciation is due to the Bank's shareholders, clients and business partners for their on-going confidence and loyalty; and to the Bank's management and staff for their hard work and dedication.

Allah the almighty is the purveyor of all success.

Dr. Ahmed Khalil Al Mutawa
Chairman

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
KHALEEJI COMMERCIAL BANK BSC
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Khaleeji Commercial Bank B.S.C. ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of income, the changes in equity, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhroo
Partner Registration No. 100
7 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

BD 000's

	Note	**31 December 2017**	31 December 2016
ASSETS			
Cash and bank balances	3	75,787	56,006
Placements with financial institutions	4	33,969	78,714
Financing assets	5	354,504	355,377
Investment in sukuk	6	113,347	74,154
Assets acquired for leasing	7	97,193	92,839
Lease rentals receivables	7	8,590	2,573
Investment in equity securities	8	52,203	55,121
Investment in real estate	9	20,163	21,508
Development property		6,003	6,003
Other assets		15,706	14,496
Property and equipment	10	7,755	8,208
Total assets		**785,220**	764,999
LIABILITIES			
Placements from financial institutions		124,265	59,079
Placements from non-financial institutions and individuals	11	61,359	100,649
Medium-term borrowing	12	41,308	-
Customers' current accounts		74,833	75,814
Other liabilities	13	7,953	8,311
Total liabilities		**309,718**	243,853
Equity of investment account holders	14	**359,818**	404,651
OWNERS' EQUITY			
Share capital	15	105,000	105,000
Statutory reserve		8,159	7,962
Treasury shares		(10,212)	(8,832)
Employee share incentive scheme		(70)	(182)
Retained earnings		10,162	8,751
Total equity attributable to shareholders of the parent (page 7)		**113,039**	112,699
Non-controlling interest		2,645	3,796
Total liabilities, equity of investment account holders and owners' equity		**785,220**	764,999

The consolidated financial statements, which consist of pages 5 to 64, were approved by the Board of directors on 7 February 2018 and signed on its behalf by:

Dr. Ahmed Khalil Al Mutawa
Chairman

Abdulkarim Ahmed Bucheery
Vice Chairman

Tawfeeq Mohamed Bastaki
Acting chief Executive Officer

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2017 BD 000's

	Note	2017	2016
Income from financing assets and assets acquired for leasing		27,368	26,198
Income from placements with financial institutions		761	643
Income from sukuk	16	4,736	3,002
Income from equity securities		(1,658)	652
Fees and other income		2,644	5,422
Total income before return to investment account holders		**33,851**	35,917
Less: Return to investment account holders before Bank's share as Mudarib	14	(14,884)	(16,286)
Bank's share as a Mudarib	14	7,436	9,130
Return to investment account holders		**(7,448)**	(7,156)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(4,612)	(2,976)
Finance expense on medium-term borrowing		(648)	-
Total income		**21,143**	25,785
Staff cost	17	6,674	5,988
Other operating expenses	18	6,181	5,568
Total expenses		**12,855**	11,556
Profit for the year before impairment allowances		**8,288**	14,229
Net impairment charge	19	(7,470)	(8,921)
PROFIT FOR THE YEAR		**818**	5,308
Attributable to:			
Shareholders of the parent		1,969	5,310
Non-controlling interest		(1,151)	(2)
		818	5,308
Earnings per share			
Basic and diluted earnings per share (fils)	24	**2.04**	5.49

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017 BD 000's

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

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017 (continued) BD 000's

2016	Equity attributable to shareholders of the parent								
	Share Capital	Statutory reserve	Treasury shares	Employee share incentive scheme	Investment fair value reserve	Retained earnings	Total	Non-Controlling interest	Total Equity
Balance at 1 January 2016	100,000	7,411	(8,136)	(284)	(86)	8,998	107,903	3,798	111,701
Movement in fair value of investments	-	-	-	-	322	-	322	-	322
Disposal of equity securities	-	-	-	-	(236)	-	(236)	-	(236)
Profit for the year	-	-	-	-	-	5,310	5,310	(2)	5,308
Total recognised income and expense for the year	-	-	-	-	86	5,310	5,396	(2)	5,394
Issue of bonus shares	5,000	-	-	-	-	(5,000)	-	-	-
Transfer to statutory reserve	-	551	-	-	-	(551)	-	-	-
Net treasury shares purchased	-	-	(696)	-	-	-	(696)	-	(696)
Issue of shares under incentive scheme	-	-	-	102	-	-	102	-	102
Transfer to Zakah fund	-	-	-	-	-	(6)	(6)	-	(6)
Balance at 31 December 2016	105,000	7,962	(8,832)	(182)	-	8,751	112,699	3,796	116,495

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2017 BD 000's

	Note	**2017**	2016
OPERATING ACTIVITIES			
Receipts / (disbursements) relating to financing assets, net		23,286	(18,071)
Payment for asset acquired for leasing, net		(10,543)	(26,548)
Receipt of profit on short-term placements		760	643
Returns paid to investment account holders		(7,533)	(7,041)
(Withdrawals)/receipts from investment account holders, net		(44,834)	33,381
Payment of profit on placements		(4,612)	(2,976)
Payment for expenses		(13,228)	(12,364)
Other receipts		2,643	3,879
Payment for charity		(427)	(40)
(Withdrawals) /receipts in customers' current accounts, net		(981)	9,965
Placements from financial institutions, net		65,186	12,072
Placements from non-financial institutions and individuals, net		(39,290)	52,338
Net payment to CBB reserve account		2,395	(985)
Income from sukuk received		4,015	2,844
Placements with financial institutions		(1,048)	-
Net cash (used in) / generated from operating activities		**(24,211)**	47,097
INVESTING ACTIVITIES			
Purchase of sukuk		(59,054)	(32,983)
Purchase of equity securities		-	(84)
Proceed from redemption / sale of sukuk		19,465	21,757
Proceed from redemption / sale of equity securities		92	10,236
Proceeds from disposal of development property		-	1,081
Proceeds from disposal of Investment in real estate		700	1,800
Purchase of investment in real estate		(248)	-
Receipt of dividends / income from equity securities		399	708
Disposal / (Purchase) of property and equipment, net		41	(420)
Net cash (used in) / generated from investing activities		**(38,605)**	2,095
FINANCING ACTIVITIES			
Purchase of treasury shares, net		(1,380)	(696)
Drawdown of medium-term borrowing		41,004	-
Finance expense paid on medium-term borrowing		(425)	-
Net cash generated from / (used in) financing activities		**39,199**	(696)
Net (decrease) / increase in cash and cash equivalents		**(23,617)**	48,496
Cash and cash equivalents at 1 January		114,865	66,369
Cash and cash equivalents at 31 December		**91,248**	114,865
Cash and cash equivalent comprise:			
Cash and bank balances (excluding CBB reserve)	3	58,327	36,151
Placements with financial institutions with original maturities of 90 days or less	4	32,921	78,714
		91,248	**114,865**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2017 BD 000's

2017	Balance at 1 January 2017			Movements during the year						Balance at 31 December 2017		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (withdrawals) BD 000's	Revaluation BD 000's	Gross income/ (loss) BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstration expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS12	6,304	1.00	6,304	(50)	-	-	-	-	-	6,254	1.00	6,254
Janayen Holding Limited (RIA 4)												
Shaden Real Estate Investment WLL (RIA 5)	3,652	1.00	3,652	(123)	-	-	-	-	-	3,529	1.00	3,529
Locata Corporation Pty Ltd (RIA 6)	2633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			10,949	**(173)**	**-**	**-**	**-**	**-**	**-**			**10,776**

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2017 (continued) BD 000's

2016	Balance at 1 January 2016			Movements during the year						Balance at 31 December 2016		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (withdrawals) BD 000's	Revaluation BD 000's	Gross income/ (loss) BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstration expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1) and NS12	8,313	1.00	8,313	(2,009)	-	-	-	-	-	6,304	1.00	6,304
Janayen Holding Limited (RIA 4)	48,082	0.18	8,500	(8,524)	-	24	-	-	-	-	-	-
Shaden Real Estate Investment WLL (RIA 5)	3,728	1.00	3,728	(76)	-	-	-	-	-	3,652	1.00	3,652
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			21,534	(10,609)	-	24	-	-	-			10,949

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the year ended 31 December 2017 BD 000's

	2017	2016
Sources of zakah and charity fund		
At 1 January	723	727
Contributions by the Bank	361	7
Non-Islamic income	17	29
Total sources	**1,101**	763
Uses of zakah and charity fund		
Contributions to charitable organisations	427	40
Total uses	**427**	40
Undistributed zakah and charity fund at 31 December	**674**	723

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

for the year ended 31 December 2017 BD 000's

1. REPORTING ENTITY

Khaleeji Commercial Bank BSC ("the Bank"), a public shareholding company, was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail banking license granted by the Central Bank of Bahrain ("CBB") on 20 October 2003. The Bank's shares are listed on the Bahrain Bourse. Effectively on 19 December 2017, the Bank's shares were listed on Dubai Financial Markets.

The Bank's activities are regulated by the Central Bank of Bahrain (CBB) and supervised by a Religious Supervisory Board to ensure adherence to Shari'a rules and principles in its transactions and activities.

The principal activities of the Bank include providing banking and investment products and services to retail customers, high net worth individuals, corporate entities, and financial institutions. These include retail and corporate banking, consumer finance, wealth management, structured investment products and project financing facilities which comply with Islamic Shari'a rules and principles as determined by the Bank's Shari'a Supervisory Board.

The consolidated financial statements include the financial statements of the Bank and its subsidiaries (together "the Group"). The significant subsidiaries are as follows:

Name	Country of incorporation	% holding 2017	% holding 2016	Nature of business
Hawafiz Khaleeji Management Company BSC (c)	Bahrain	100%	100%	To hold shares for the beneficial interest of the employee incentive scheme. (refer note 20)
Harbour West 2 Real Estate SPC	Bahrain	100%	100%	To hold property for the beneficial interest of the Bank.
Harbour West 4 Real Estate SPC	Bahrain	100%	100%	To hold property for the beneficial interest of the Bank.
Surooh Limited	Cayman Islands	19.08%	19.08%	To construct and sell properties at "Oryx Hills".
Eqarat Al Khaleej	Cayman Islands	10%	10%	To buy, sell and let-out income producing properties across the GCC.
True Horse Real Estate L.L.C.	UAE	100%	100%	Buying and selling of real estate.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for those changes arising from revised/new AAOIFI financial accounting standards.

i. New standards, amendments, and interpretations effective from 1 January 2017

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that would be expected to have a material impact on the Group.

ii. New standards, amendments and interpretations issued but not yet effective

FAS 30 – Impairment, credit losses and onerous commitments

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments in 2017. FAS 30 will replace FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deals with impairment. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions.

FAS30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach (“NRV”) and 3) Impairment approach.

For the purpose of the standard, the assets and exposures shall be categorized, as under:

a. Assets and exposures subject to credit risk (subject to credit losses approach):
   i. Receivables; and
   ii. Off-balance sheet exposures;
b. Inventories (subject to net realizable value approach)
c. Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach) , excluding inventories.

Credit losses approach for receivables and of balance sheet exposures uses a dual measurement approach, under which the loss allowance is measured as either a 12-month expected credit loss or a lifetime expected credit loss.

Expecated credit losses

FAS 30 introduces the credit losses approach with a forward-loking ‘expected credit loss’ model. The new impairment model will apply to financial assts which are subject to credit risk. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing benchmark of similar financial assets for the purposes of measuring ECL.

The standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted. As mandated by the regulator all Islamic banks are required to early adopt FAS 30 from 1 January 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group estimates the FAS 30 transition amount will reduce shareholders' equity by approximately BD 9,558 thousand as at 1 January 2018. The estimated impact relates primarily to the increase in the allowance for credit losses under the new impairment requirements. The Group continues to revise, refine and validate the impairment models and related process controls which may change the actual impact on adoption.

(a) Statement of compliance

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

(b) Basis of preparation

The consolidated financial statements are presented in Bahraini Dinars, being the principal currency of the Bank's operations. They are prepared on the historical cost basis except for the measurement at fair value of certain investments carried at fair value.

The Group classifies its expenses in the income statement by the nature of expense method.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 21.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist, when the Group owns more than 50% of voting rights on an entitiy.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE. The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 22.

(ii) Associates

Associates are those entities over which the Group holds exercises significant influence, but not control or joint control, over the financial and operating policies.

Investments in associates are initially recognised at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The carrying amount of the equity accounted investment is tested for impairment in accordance with the policy described in note 2 (m).

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) 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 Bahraini Dinars, which is the Bank'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 income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

The other Group companies functional currencies are either denominated in Bahraini dinars or US dollars which is effectively pegged to the Bahraini dinar. Hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in an exchange differences.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment securities

Investment securities comprise investments in equity securities and investments in sukuk. Investment securities exclude investments in subsidiaries and equity accounted investees (refer note 2(c)).

(i) Classification

The Group segregates its investment securities into debt-type and equity-type instruments. Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital. 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.

Debt-type Instruments:
A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at FVTIS. Debt-type investments at amortised cost include investments in medium to long-term sukuk.
All Investments in debt-type instruments are carried at amortised cost , which are only sukuk.

Equity-type investments:
Investments in equity type instruments are classified in the following categories: 1) at fair value through income statement ('FVTIS') or 2) at fair value through equity ('FVTE'), consistent with its investment strategy.

The Bank has one investment in equity securities that is designated at FVTIS. The rest are classified as investments at fair value through equity.

(ii) Recognition and de-recognition

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

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

(iii) Measurement

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

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains/losses are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment securities (continued)

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Group measure the fair value of an instruments using the quoted price in an active market for that instrument.

For unquoted investments at fair value, the Group uses recognised valuation techniques for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

When there is no quoted price or other appropriate methods from which to derive fair value, investments are carried at cost less impairment.

(f) Financing assets

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudharaba, Istisna and Wakala contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost less impairment allowances, if any.

(g) Placements with and from financial institutions, non-financial institutions and individuals

These comprise inter-bank and over the counter customer placements made/received using Shari'a compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

(h) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances (excluding CBB reserve account), and placement with financial institutions with original maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

(i) Assets acquired for leasing

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investment in real estate

Real estate properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are carried at cost less depreciation and impairment allowances, if any. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment in real estate includes plots of land held for capital appreciation purposes, villas and buildings held for earning rentals.

Land is not depreciated. Buildings are depreciated over 25 years.

(k) Development properties

Development property consists of villas being developed for sale in the ordinary course of business and costs incurred in bringing such property to its saleable condition.

Development property is stated at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete development and selling expenses.

(l) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and impairment allowances, if any. Property includes land which is not depreciated. Other equipment is depreciated using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 3 to 5 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(m) Impairment of assets

Financial assets

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

Financial assets carried at amortised cost

These include financing assets, debt-type instruments, and receivables. For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement. Recovery of written off financial assets is credited to impairment charge for the year. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level.

All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets (continued)

Equity investments classified at fair value through equity (FVTE)
In the case of investments in equity securities classified as FVTE and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The group considers a decline of 30% to be significant and a period of nine months to be prolonged. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

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

Non-financial assets
The carrying amount of the Group's non-financial assets (other than for financial assets covered above), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed. As at December 2017, the Bank did not have any goodwill recognised.

(n) Customers' current accounts
Balances in current (non-investment) accounts are recognised when received by the Bank. The transaction are measured at the cash equivalent amount received by the Bank at the time of contracting. At the end of the accounting period, the accounts are measured at their book value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Equity of investment account holders

Equity of investment account holders are funds held by the Bank in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Bank to invest the account holders' funds in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Bank charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Bank's share of income as a Mudarib. The allocation of income is determined by the management of the Bank within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders. Administrative expenses incurred in connection with the management of the funds are borne directly by the Bank and are not charged separately to investment accounts.

The Bank charges specific provision and collective provision to owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation, investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Bank out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Bank out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

(p) Restricted investment accounts

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

(q) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

(r) Treasury shares

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Statutory reserve

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

(t) Revenue recognition

Income from Murabaha and Wakala contracts are recognised on a time-apportioned basis over the period of the contract using the effective profit method.

Profit or losses in respect of the Bank's share in **Musharaka and Mudharaba financing** transaction that commence and end during a single financial period are recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka and Mudharaba financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the agreements.

Istisna'a revenue and the associated profit margin is recognised using the percentage of completion method.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term.

Income from sukuk and income/expenses on placements is recognised at its effective profit rate over the term of the instrument.

Dividend income is recognised when the right to receive is established.

Rental income is recognised on a straight line basis over the term of the contract.

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

(u) Earnings prohibited by Shari'a

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

(v) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 Zakah using the net assets method. Zakah is paid by the Group based on the eligible reserve and retained earnings balances at the end of the year and the remaining Zakah is payable by individual shareholders. The Bank calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The Group also pays Zakah on the balance of treasury shares held at the year-end based on the pro-rata share of Zakah. The calculations of Zakah is approved by the Shari'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment account holders.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Employee benefits

(i) Short-term benefits

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

(ii) Post-employment benefits

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

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

These benefits are in the nature of “defined benefit scheme” and any increase or decrease in the benefit obligation is recognised in the income statement.

The Bank also operates a voluntary employees saving scheme under which the Bank and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Bank. The scheme is in the nature of a defined contribution scheme and contributions by the Bank are recognised as an expense in the income statement when they are due.

(iii) Share-based employee incentive scheme

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(x) Dividends and board remuneration

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

(y) 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.

(z) Offsetting

Financial assets and liabilities are offset only when there is a legal or Shari’a based enforceable right to set-off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(bb) URIA Protection Scheme

Funds held with the Bank in investment accounts and current accounts are covered by the Deposit and URIA Protection Scheme ('the Scheme') established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

The Scheme applies to all eligible accounts held with the Bank subject to certain specific exclusions, maximum total amount entitled and other regulations governing the establishment of a Deposit and URIA Protection Scheme and a Deposit Protection Board.

(cc) Repossessed assets

In certain circumstance, properties are repossessed following the foreclosure on financing facilities that are in default. Repossessed properties are measured at the lower of carrying value and fair value less cost to sell.

(dd) Medium term Borrowing

Medium-term borrowing represents borrowing obtained through murabaha contract recognized on the origination date and carried at amortized cost.

3. CASH AND BANK BALANCES

	31 December 2017	31 December 2016
Cash	8,134	6,888
Balances with banks	24,461	17,112
Balances with the Central Bank:		
- Current account	25,732	12,151
- Reserve account	17,460	19,855
	75,787	56,006

The reserve account with the Central Bank of Bahrain is not available for day-to-day operational purposes.

4. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
Gross Murabaha and Wakala receivable	33,996	78,757
Less: Deferred profits	(27)	(43)
	33,969	78,714

The average profit rate on placement with financial institutions for 2017 was 1.59% per annum (31 December 2016: 1.53% per annum). Placements with financial institutions with original maturities of 90 days or less is BD 32,921 (31 December 2016: 78,714).

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5. FINANCING ASSETS

	31 December 2017	31 December 2016
Murabaha	335,064	334,632
Musharaka	6,918	8,765
Wakala	21,482	29,386
Mudharaba	1,137	1,155
Istisna	-	7
	364,601	373,945
Less: Impairment allowances – specific	(6,730)	(15,164)
Less: Impairment allowances – collective	(3,367)	(3,404)
	354,504	355,377

Murabaha financing receivables are net of deferred profits of BD 23,039 thousand (2016: BD 31,004 thousand).

The movement on impairment allowances is as follows:

2017	**Specific**	**Collective**	**Total**
At 1 January 2017	15,164	3,404	**18,568**
Net charge for the year (note 19)	4,794	(37)	**4,757**
Write-off	(13,228)	-	**(13,228)**
At 31 December 2017	**6,730**	**3,367**	**10,097**

2016	Specific	Collective	Total
At 1 January 2016	10,284	3,484	13,768
Net charge for the year (note 19)	7,686	(80)	7,606
Write-off	(2,806)	-	(2,806)
At 31 December 2016	15,164	3,404	18,568

6. INVESTMENT IN SUKUK

	31 December 2017	31 December 2016
Debt type instruments – at amortized cost		
- Quoted sukuk *	113,200	73,443
- Unquoted sukuk	147	711
	113,347	74,154

Debt type instruments are net of specific impairment allowances of BD 1,417 thousand (2016: BD 1,021 thousand).

During the year, impairment charge of BD 396 thousand (31 December 2016: BD 589 thousand) was recognised on unquoted debt type instruments carried at amortised cost.

* Includes Sukuk of BD 48,888 thoursands pleadged against medium-term borrowing of BD 41,308 thousands.

for the year ended 31 December 2017 BD 000's

7. ASSETS ACQUIRED FOR LEASING

	2017	2016
Cost		
At 1 January	104,816	75,326
Additions during the year	21,873	40,866
Settlements/adjustments during the year	(6,694)	(11,376)
At 31 December	**119,995**	104,816
Accumulated depreciation		
At 1 January	11,977	7,515
Charge for year	13,415	7,611
Settlements during the year	(2,590)	(3,149)
At 31 December	**22,802**	11,977
Net book value at 31 December	**97,193**	92,839

At 31 December 2017, accrued lease rental receivable amounted to BD 8,590 thousand (2016: BD 2,573 thousand). Lease rental receivable is net of collective provision of BD 1,052 thousand (2016: BD 959 thousand) and specific provision of BD 79 thousand (2016: Nil). During the year, an impairment allowance of BD 173 thousand (2016: BD 236 thousand) was made on the lease rental receivables.

Of the total net book value of assets acquired for leasing, consumer financing amounted to BD 88,984 thousand (2016: BD 88,277 thousand).

8. INVESTMENT IN EQUITY SECURITIES

	31 December 2017	31 December 2016
At fair value through income statement		
- Unquoted equity securities (at fair value)	13,148	15,148
At fair value through equity		
- Unquoted equity securities (at cost less impairment)*	39,055	39,973
	52,203	55,121

* Unquoted equity securities at fair value through equity comprise investments in closed companies managed by external investment managers or represent investments in projects promoted by the Group. These investments are carried at cost less impairment in the absence of a market price or a reliable measure of fair value. The Group intends to exit these investments principally by means of private placements, strategic buy outs or sale of underlying assets.

During the year, impairment charge of BD 1,311 thousand (31 December 2016: BD 1,852 thousand) was recognised on equity securities carried at cost.

Unquoted equity securities carried at cost are net of specific impairment allowances of BD 12,876 thousand (2016: BD 10,493 thousand). During the year, the Group has written off fully provided for investments of BD 2,988 thousand (2016: BD 5,111).

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9. INVESTMENT IN REAL ESTATE

	Land	Building	2017 Total	2016 Total
Cost				
At 1 January	19,620	3,246	22,866	20,223
Additions	294	248	542	5,088
Disposals	(453)	(631)	(1,084)	(2,445)
Impairment (note 19)	-	(790)	(790)	-
At 31 December	**19,461**	**2,073**	**21,534**	22,866
Accumulated Depreciation				
At 1 January	-	1,358	1,358	1,152
Charge for year	-	73	73	261
Disposals	-	(60)	(60)	(55)
At 31 December	-	**1,371**	**1,371**	1,358
Net book value at 31 December	**19,461**	**702**	**20,163**	21,508

Subsequent to the year end, the group sold a building at a loss of BD 790 thousand. The carrying value has been adjusted to reflect this loss.

10. PROPERTY AND EQUIPMENT

	Land	Furniture and fixtures	Computers	Motor vehicle and Other equipment	Work-in-progress	2017 Total	2016 Total
Cost							
At 1 January	**6,714**	**4,377**	**3,939**	**495**	**691**	**16,216**	15,896
Additions	-	16	136	42	197	391	463
Capitalisation	-	30	848	10	(888)	-	-
Disposals	-	-	(433)	(5)	-	(438)	(143)
At 31 December	**6,714**	**4,423**	**4,490**	**542**	**-**	**16,169**	16,216
Accumulated Depreciation							
At 1 January	-	**4,118**	**3,532**	**358**	**-**	**8,008**	7,611
Charge for year	-	90	268	53	-	411	497
Disposals	-	-	-	(5)	-	(5)	(100)
At 31 December	-	**4,208**	**3,800**	**406**	**-**	**8,414**	8,008
Net book value at 31 December 2017	**6,714**	**215**	**690**	**136**	**-**	**7,755**	8,208
Net book value at 31 December 2016	6,714	259	407	137	691	8,208	

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11. PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

	31 December 2017	31 December 2016
Non-financial institutions	14,417	46,077
Individuals	46,942	54,572
	61,359	100,649

These represent placements in the form of Murabaha and Wakala contracts. These are net of deferred profit of BD 1,856 thousand (2016: BD 2,501 thousand).

12. MEDIUM-TERM BORROWING

During the year, the group obtained two medium-term Murabaha facilities of BD 41,308 thousand secured by pledge over sukuk of BD 48,888 thousand.

13. OTHER LIABILITIES

	31 December 2017	31 December 2016
Mudaraba profit accrual	2,860	2,945
Employee related accruals	189	251
Zakah and charity payable (page 12)	674	723
Payable for Istisna'a contracts	27	111
Other payables and accrued expenses	4,203	4,281
	7,953	8,311

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14. EQUITY OF INVESTMENT ACCOUNT HOLDERS

The funds received from investment account holders have been commingled and jointly invested with the Bank in the following asset classes as at 31 December:

	31 December 2017	31 December 2016
Balances with banks	24,461	17,112
CBB reserve account	17,460	19,855
Placements with financial institutions	33,969	78,714
Debt type instruments – sukuk	113,199	73,444
Financing assets	170,729	215,526
	359,818	404,651

As at 31 December 2017, the balance of profit equalisation reserve and investment risk reserve was Nil (2016: Nil).

Only the profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. The Bank did not charge any administration expenses to investment accounts.

Following is the average percentage for profit allocation between owner's equity and investment accountholders.

	2017		2016	
	Mudarib share	IAH shares	Mudarib share	IAH shares
1 month Mudharaba *	73.34%	26.66%	78.46%	21.54%
3 months Mudharaba	58.58%	41.42%	69.23%	30.77%
6 months Mudharaba	55.30%	44.70%	66.79%	33.21%
12 months Mudharaba	37.99%	62.01%	46.83%	53.17%
18 months Mudharaba	80.55%	19.45%	42.56%	57.44%
24 months Mudharaba	25.63%	74.37%	38.41%	61.59%
36 months Mudharaba	12.22%	87.78%	-	-

* Includes savings, Al Waffer and Call Mudaraba accounts.

During the year, average mudarib share as a percentage of total income allocated to IAH was 41.86% (2016: 53.57%) as against the average mudarib share contractually agreed with IAH. Hence the Bank sacrificed average mudarib fees of 16.94% (2016: 11.23%).

The Bank does not share profits resulting from the assets funded through current accounts and other funds received on the basis other than mudarba contract.

The funds raised from IAH are deployed in the assets on a priority basis after setting aside certain amount in cash and placement with Banks for liquidity management purposes.

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15. SHARE CAPITAL

	31 December 2017	31 December 2016
Authorised:		
3,000,000,000 ordinary shares of BD 0.100 each	**300,000**	300,000
Issued and fully paid up:		
1,050,000,000 ordinary shares (2016: 1,050,000,000) of BD 0.100 each	**105,000**	105,000

The Bank has only one class of equity shares and the holders of these shares have equal voting rights. At 31 December 2017, the Group holds 90,644,113 as treasury shares (2016: 83,480,840 shares).

Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding shares:

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group *	Bahrain	493,490,918	47.00
Goldilocks Investment Company Limited	UAE	104,779,110	9.98
Emirates Islamic Bank PJSC	UAE	88,322,425	8.41
Khaleeji Commercial Bank B.S.C	Bahrain	86,000,346	8.19

*As at 31 December 2017, these shares representing 47% (2016: 47%) were held by KHCB Asset Company on behalf of GFH Financial Group, which is considered as the parent of the Bank for financial reporting purposes.

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16. INCOME FROM SUKUK

	2017	2016
Profit earned on debt-type Sukuk	4,628	3,205
Gain/(Loss) on sale of Sukuk	108	(203)
	4,736	3,002

17. STAFF COST

	2017	2016
Salaries and short-term benefits	5,679	5,152
Social insurance expenses	852	789
Other staff expenses	143	47
	6,674	5,988

18. OTHER OPERATING EXPENSES

	2017	2016
Premises cost	1,114	1,132
Advertisement and marketing expenses	1,256	1,221
Professional fees	757	513
Information technology expenses	446	430
Board expenses	356	108
Communication expenses	313	257
Distribution channel expenses	537	430
Other administrative expenses	991	980
Depreciation expenses	411	497
	6,181	5,568

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19. NET IMPAIRMENT CHARGE

	2017	2016
Financing assets (note 5)	4,757	7,606
Investments in Sukuk (note 6)	396	589
Lease rental receivable (note 7)	173	236
Investments at fair value through equity (note 8)	1,311	1,852
Investment in real estate (note 9)	790	-
Other assets	43	1,004
Recoveries from previously written off financing assets	-	(2,366)
	7,470	8,921

20. SHARE-BASED EMPLOYEE INCENTIVE SCHEME

The group has incorporated a special purpose vehicle, Hawafiz Khaleeji Management Company BSC (c) (''Hawafiz''), to hold the beneficial interest of the shares under the scheme.

The shareholders, in their annual general meeting held on 30 March 2015, approved the employee share based incentive scheme (the "scheme") which is in line with the CBB's Sound Remuneration Practices. Under the share incentive scheme, certain covered employees are granted the Bank's shares as compensation for their performance.

As per the scheme, the share awards from each performance year will vest immediately but will be released over three years period from the date of grant. The share awards are subject to an additional retention period of six months from the date of completion of deferred period, after which the employee is unconditionally allowed to sell the shares in the market. The scheme allows the Bank Nomination, Remuneration and Governance Committee ("BNRGC") to determine that, if appropriate, un-awarded shares can be forfeited or clawed back in certain situations.

As at 31 December 2017, 4,643,767 shares (2016: 6,277,632 shares) were held by Hawafiz. During the year 1,091,962 shares (2016: 2,551,770 shares) shares were awarded to the employees as awards under the terms of the scheme subject to a three year deferment period. During the year the Bank transferred 1,633,866 shares (2016: 855,966 shares) to the employees.

21. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgements

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 debt type instruments carried at fair value through equity or amortised cost, or equity-type instruments carried at fair value through equity or fair value through income statement. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (e)].

21 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Judgements (continued)

Special purpose entities

The Bank sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Bank provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Bank 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 Bank does not consolidate SPE's that it does not have the power to control. In determining whether the Bank 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's intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Estimations

Impairment of equity investments

The Group determines that equity securities carried at fair value are impaired when there is an objective evidence of impairment and there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

In case of quoted equity securities, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged.

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

Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment.

In making this judgment, the Bank evaluates among other factors, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

Fair value of unquoted equity securities

The Group determines the fair value of unquoted investments by using valuation techniques. This includes using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis or market multiples for similar instruments. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

21 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Estimations (continued)

Significant judgment is required to be made by the Group and the Board of Directors in the selection of an approach that would reflect the best measure of fair value of the investments. The choice of the models used for valuation on each reporting period may have a significant impact on the fair value of investments and the amounts reported in the consolidated financial statements. The Bank has adopted price earning multiple approach for its unquoted equity security.

The potential effect of using reasonable possible alternative assumptions for valuing the investments resulting in 5% decrease/increase in the market multiple would increase/decrease the reported fair value by BD 650 thousand (31 December 2016: BD 757 thousand). The corresponding impact would be on the profit or loss reported by the Group.

Impairment of financing assets

Financing assets are evaluated for impairment on a basis described in accounting policy, refer to note 2 (f). 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 and the net realisable value of any underlying assets/ collaterals. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department.

For the purposes of a collective evaluation of impairment, financing assets are grouped on the basis of similar credit risk characteristics (that is, considers asset type, collateral type, past-due status and other relevant factors). The methodology and assumptions used for the grading process and estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In view of the management, the current level of provisioning is adequate and no additional impairment allowances are required on a collective basis.

Net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. 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 development property.

22. ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its investment entities, which involves making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of BD 240.97 million (31 December 2016: BD 234.69 million). During the year, the Bank has not charged any management fees (2016: BD Nil) for the management of these assets.

23. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the parent company, other significant shareholders and entities over which the Bank and the shareholders exercises significant influence, directors, sharia board members and executive management of the Bank.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were:

Categories*	Number of Shares	Number of Directors
Less than 1%	1,050,763	1

* Expressed as a percentage of total outstanding shares of the Bank.

Compensation of key management personnel
Key management personnel of the Bank comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank.

The key management personnel compensation during the year is as follows:

	2017	2016
Board member fees and allowances	314	93
Salaries and other short-term benefits	1,328	1,031

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23. RELATED PARTY TRANSACTIONS (continued)

The related party balances and transactions (except for compensation of key managerial personnel) included in these consolidated financial statements are as follows:

31 December 2017	**Associates**	**Directors / Key management personnel and shari'a board members**	**Parent company / other significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Assets					
Financing assets	-	967	5,710	1,388	**8,065**
Investment in equity securities	-	-	2,284	23,794	**26,078**
Other assets	4,727	-	-	1,029	**5,756**
Liabilities					
Placement from financial institutions and others	-	-	15,091	-	**15,091**
Customers' current accounts	55	-	595	1,359	**2,009**
Equity of investment account holders	592	241	21,034	875	**22,742**

31 December 2016	Associates	Directors / Key management personnel and shari'a board members	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	-	-	-	-
Investment in equity securities	127	-	2,284	25,387	27,798
Other assets	4,678	-	-	918	5,596
Liabilities					
Customers' current accounts	10	-	88	1,903	2,001
Equity of investment account holders	446	150	19,935	917	21,448

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23. RELATED PARTY TRANSACTIONS (continued)

2017	**Associates**	**Directors / Key management personnel**	**Parent company / other significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Income					
Income from financing assets and assets acquired for leasing	-	48	334	87	**469**
Income from equity securities	-	-	-	-	**-**
Fees and other income	7	-	-	-	**7**
Expenses					
Finance expense on placements from financial institutions, non-financial institutions and individuals	-	-	369	-	**369**
Return to investment account holders	30	7	302	25	**364**
Staff cost	-	1,328	-	-	**1,328**
Other expenses	-	-	-	-	**-**
(Recoveries)/Impairment	-	-	-	842	**842**

2016	Associates	Key management personnel	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	6	-	-	-	6
Income from equity securities	-	-	-	-	-
Fees and other income	17	-	1,893	-	1,910
Expenses					
Return to investment account holders	12	2	155	8	177
Staff cost	-	1,031	-	-	1,031
Other expenses	-	-	4	21	25
(Recoveries)/Impairment	-	-	(2,366)	1,852	(514)

24. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year adjusted for impact arising from shares issued under the employee share incentive scheme.

Basic EPS	2017	2016
Profit attributable to parent for the year (BD 000's)	1,969	5,310
Weighted average number of equity shares (Nos. in 000's)	963,071	967,119
Basic earnings per share (in fils)	2.04	5.49

The Bank did not have any dilutive instruments as of 31 December 2017 and December 2016.

25. SHARI'A SUPERVISORY BOARD

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

26. ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investment account holders. The Bank currently does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. During the year, the Shari'a Supervisory Board has computed Zakah payable of BD 556 thousand (2016: BD 420 thousand) of which BD 431 thousand (2016: 355) represents the Zakah computed on the statutory reserve and cumulative retained earnings as at 31 December 2017, payable by the Bank. The remaining Zakah balance amounting to BD 125 thousand or 0.12 fils per share (2016: BD 65 thousand or 0.061 fils per share) is due and payable by the shareholders. The Bank will pay Zakah of BD 11 thousand (2016: BD 5 thousand) on the treasury shares held as of 31 December 2017 based on 0.12 fils per share.

27. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker (Board of Directors) to make decisions about resource allocation to each segment and assess its performance and for which discrete financial information is available. An operating segment is divided into business segment and geographic segments. For management purposes, the Group is organised into two major business segments:

Corporate and retail banking
Providing customer services such as accepting Mudaraba deposits, savings account and current account facilities, fund transfer facilities, bill payment facilities. It also provides financing facilities (in the form of Commodity Murabaha, Musharaka, Istisna'a and Ijarah facilities) to corporate clients and High-Networth-Individuals and consumer finance products. This segment includes money market and treasury services in the form of short term Commodity Murabaha and Wakala to banks, financial institutions and investments in sukuk to manage funding of the Group

Investment banking
Primarily relates to conceptualising of investment deals and performing roles of an arranger, lead manager, and administrator of the funds (involves structuring of deals, raising of funds through private placement and fund administration). Also offers products like Restricted Investment Accounts (RIA) and management of funds raised through the RIA structures. Also involves carrying out strategic investments in the form of equity contribution (either in the funds created and managed by the Bank or other institutions).

Segment performance is measured based on results for each department as mentioned in the internal management reports that are reviewed by the Board of directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate in these industries.

The Bank reports directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment cost respectively. Indirect costs and corporate overheads are treated as unallocated. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures.

The Group primarily operates from Bahrain and does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 29 (b) to the consolidated financial statements.

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27. SEGMENT REPORTING (continued)

These segments are the basis on which the Group reports its primary segment information. Transactions between segments (if any) are conducted on an arm's length basis

31 December 2017	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	7	75,780	-	**75,787**
Placements with financial institutions	1,094	32,875	-	**33,969**
Financing assets	-	354,504	-	**354,504**
Investment in sukuk	-	113,347	-	**113,347**
Assets acquired for leasing (including lease rentals receivable)	-	105,783	-	**105,783**
Investment in equity securities	52,203	-	-	**52,203**
Investment in real estate	20,163	-	-	**20,163**
Development property	6,003	-	-	**6,003**
Other assets	10,341	3,541	1,824	**15,706**
Property and equipment	-	-	7,755	**7,755**
Total segment assets	**89,811**	**685,830**	**9,579**	**785,220**
Placements from financial institutions	-	124,265	-	**124,265**
Placements from non- financial institutions and individuals	-	61,359	-	**61,359**
Medium-term borrowing	-	41,308	-	**41,308**
Customers' current accounts	1,094	73,739	-	**74,833**
Other liabilities	2,002	4,435	1,516	**7,953**
Total segment liabilities	**3,096**	**305,106**	**1,516**	**309,718**
Equity of investment account holders	**-**	**359,818**	**-**	**359,818**
Restricted investment accounts	**10,776**	**-**	**-**	**10,776**

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27. SEGMENT REPORTING (continued)

2017	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and assets acquired for leasing	-	27,368	-	**27,368**
Income from placements with financial institutions	25	736	-	**761**
Income from sukuk	-	4,736	-	**4,736**
Income from equity securities	(1,658)	-	-	**(1,658)**
Fees and other income	(92)	2,736	-	**2,644**
Total income before return to investment account holders	**(1,725)**	**35,576**	**-**	**33,851**
Less: Return to investment account holders before Bank's share as Mudarib	-	(14,884)	-	(14,884)
Bank's share as a Mudarib	-	7,436	-	7,436
Return to investment account holders	**-**	**(7,448)**	**-**	**(7,448)**
Less:				
Expense on placements from financial institutions, non-financial institutions and individuals	-	(4,612)	-	**(4,612)**
Finance expence on medium-term borrowing	-	(648)	-	**(648)**
Total segment income	**(1,725)**	**22,868**	**-**	**21,143**
Staff cost	667	2,670	3,337	**6,674**
Other expenses	349	1,825	4,007	**6,181**
Total segment expenses	**1,016**	**4,495**	**7,344**	**12,855**
Segment results before impairment allowances	**(2,741)**	**18,373**	**(7,344)**	**8,288**
Net impairment allowances	(2,101)	(5,369)	-	**(7,470)**
Segment results	**(4,842)**	**13,004**	**(7,344)**	**818**

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27. SEGMENT REPORTING (continued)

31 December 2016	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	-	56,006	-	56,006
Placements with financial institutions	1,759	76,955	-	78,714
Financing assets	-	355,377	-	355,377
Investment in sukuk	-	74,154	-	74,154
Assets acquired for leasing (including lease rentals receivable)	-	95,412	-	95,412
Investment in equity securities	55,121	-	-	55,121
Investment in real estate	21,508	-	-	21,508
Development property	6,003	-	-	6,003
Other assets	10,659	2,752	1,085	14,496
Property and equipment	-	-	8,208	8,208
Total segment assets	95,050	660,656	9,293	764,999
Placements from financial institutions	-	59,079	-	59,079
Placements from non- financial institutions and individuals	-	100,649	-	100,649
Customers' current accounts	1,759	74,055	-	75,814
Other liabilities	1,745	4,296	2,270	8,311
Total segment liabilities	3,504	238,079	2,270	243,853
Equity of investment account holders	-	404,651	-	404,651
Restricted investment accounts	10,949	-	-	10,949

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27. SEGMENT REPORTING (continued)

2016	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Income from financing assets and assets acquired for leasing	-	26,198	-	**26,198**
Income from placements with financial institutions	14	629	-	**643**
Income from sukuk	-	3,002	-	**3,002**
Income from investment securities	652	-	-	**652**
Fees and other income	2,369	3,053	-	**5,422**
Total income before return to investment account holders	**3,035**	**32,882**	**-**	**35,917**
Less: Return to investment account holders before Bank's share as Mudarib	-	(16,286)	-	(16,286)
Bank's share as a Mudarib	-	9,130	-	9,130
Return to investment account holders	**-**	**(7,156)**	**-**	**(7,156)**
Less: Expense on placements from financial institutions, non-financial institutions and individuals	-	(2,976)	-	**(2,976)**
Total segment income	**3,035**	**22,750**	**-**	**25,785**
Staff cost	599	2,395	2,994	**5,988**
Other expenses	318	1,684	3,566	**5,568**
Total segment expenses	**917**	**4,079**	**6,560**	**11,556**
Segment results before impairment allowances	**2,118**	**18,671**	**(6,560)**	**14,229**
Net impairment allowances	(1,852)	(7,069)	-	**(8,921)**
Segment results	**266**	**11,602**	**(6,560)**	**5,308**

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28. MATURITY PROFILE

The maturity profile of placements with and from financial institutions, financing assets, assets acquired for leasing, (including lease rental receivable), and equity of investment account holders has been presented using their contractual maturity period. For other balances, maturity profile is based on expected cash flows/ settlement profile of the respective assets and liabilities.

31 December 2017	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	66,167	3,212	4,821	1,587	-	**75,787**
Placements with financial institutions	32,921	-	1,048	-	-	**33,969**
Financing assets	71,931	31,456	54,039	115,068	82,010	**354,504**
Investment in sukuk	64,459	-	-	48,888	-	**113,347**
Assets acquired for leasing (including lease rental receivable)	1,898	1,710	3,313	20,089	78,773	**105,783**
Investment in equity securities	-	-	-	52,203	-	**52,203**
Investment in real estate	-	-	-	-	20,163	**20,163**
Development property	-	-	-	-	6,003	**6,003**
Other assets	10,605	931	93	397	3,680	**15,706**
Property and equipment	-	-	-	-	7,755	**7,755**
Total assets	**247,981**	**37,309**	**63,314**	**238,232**	**198,384**	**785,220**
Liabilities						
Placements from financial institutions	91,652	14,319	11,505	6,789	-	**124,265**
Placements from non-financial institutions and individuals	21,341	11,090	27,641	-	1,287	**61,359**
Medium-term borrowing	-	-	-	41,308	-	**41,308**
Customers' current account	46,997	10,566	6,418	3,760	7,092	**74,833**
Other liabilities	2,393	638	739	4,183	-	**7,953**
Total liabilities	**162,383**	**36,613**	**46,303**	**56,040**	**8,379**	**309,718**
Equity of investment account holders	175,109	32,670	47,852	15,192	88,995	**359,818**
Restricted investment accounts	-	4,522	-	6,254	-	10,776
Commitments and financial gurantees	3,863	19,336	17,242	26,695	1	67,137

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28. MATURITY PROFILE (continued)

31 December 2016	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	56,006	-	-	-	-	56,006
Placements with financial institutions	77,686	-	1,028	-	-	78,714
Financing assets	26,154	16,977	40,784	81,503	189,959	355,377
Investment in sukuk	74,154	-	-	-	-	74,154
Assets acquired for leasing (including lease rental receivable)	148	7	13	1,354	93,890	95,412
Investment in equity securities	-	-	-	55,121	-	55,121
Investment in real estate	-	-	-	-	21,508	21,508
Development property	-	-	-	-	6,003	6,003
Other assets	851	-	41	9,975	3,629	14,496
Property and equipment	-	-	-	-	8,208	8,208
Total assets	234,999	16,984	41,866	147,953	323,197	764,999
Liabilities						
Placements from financial institutions	59,079	-	-	-	-	59,079
Placements from non-financial institutions and individuals	19,127	13,598	63,654	2,553	1,717	100,649
Customers’ current account	47,595	10,870	6,448	3,777	7,124	75,814
Other liabilities	2,785	581	824	4,121	-	8,311
Total liabilities	128,586	25,049	70,926	10,451	8,841	243,853
Equity of investment account holders	166,175	42,392	53,392	28,958	113,734	404,651
Restricted investment accounts	-	6,304	-	4,645	-	10,949
Commitments and financial gurantees	31,720	17,264	25,836	12,001	1,645	88,466

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29. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

31 December 2017	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	75,787	-	-	75,787
Placements with financial institutions	33,969	-	-	33,969
Financing assets	11,011	75,688	267,805	354,504
Investment in sukuk	11,857	146	101,344	113,347
Assets acquired for leasing (including lease rentals receivable)	-	105,715	68	105,783
Investment in equity securities	13,147	35,387	3,669	52,203
Investment in real estate	-	20,163	-	20,163
Development property	-	6,003	-	6,003
Other assets	1,050	5,781	8,875	15,706
Property and equi354pment	-	6,715	1,040	7,755
Total assets	**146,821**	**255,598**	**382,801**	**785,220**
Liabilities				
Placements from financial institutions	124,265	-	-	124,265
Placements from non-financial institutions and individuals	-	-	61,359	61,359
Medium-term borrowing	41,308	-	-	41,308
Customers' current accounts	2,688	11,448	60,697	74,833
Other liabilities	-	2,003	5,950	7,953
Total liabilities	**168,261**	**13,451**	**128,006**	**309,718**
Equity of investment account holders	**29,990**	**16,552**	**313,276**	**359,818**
Restricted investment accounts	**-**	**9,783**	**993**	**10,776**
Commitments and financial gurantees	**619**	**24,645**	**41,873**	**67,137**

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29. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(a) Industry sector (continued)

31 December 2016	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	56,006	-	-	56,006
Placements with financial institutions	78,714	-	-	78,714
Financing assets	12,358	88,245	254,774	355,377
Investment in sukuk	1,885	10,058	62,211	74,154
Assets acquired for leasing (including lease rentals receivable)	-	94,488	924	95,412
Investment in equity securities	15,147	36,305	3,669	55,121
Investment in real estate	-	21,508	-	21,508
Development property	-	6,003	-	6,003
Other assets	1,085	5,718	7,693	14,496
Property and equipment	-	6,740	1,468	8,208
Total assets	165,195	269,065	330,739	764,999
Liabilities				
Placements from financial institutions	59,079	-	-	59,079
Placements from non-financial institutions and individuals	-	-	100,649	100,649
Customers' current accounts	3,343	11,849	60,622	75,814
Other liabilities	-	2,752	5,559	8,311
Total liabilities	62,422	14,601	166,830	243,853
Equity of investment account holders	39,683	21,446	343,522	404,651
Restricted investment accounts	-	9,956	993	10,949
Commitments and financial gurantees	723	27,571	60,172	88,466

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29. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic sector

31 December 2017	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	61,083	2,933	11,761	10	-	75,787
Placements with financial institutions	33,969	-	-	-	-	33,969
Financing assets	337,937	16,531	-	36	-	354,504
Investment in sukuk	113,347	-	-	-	-	113,347
Assets acquired for leasing (including lease rentals receivable)	105,783	-	-	-	-	105,783
Investment in equity securities	29,279	-	-	19,256	3,668	52,203
Investment in real estate	20,163	-	-	-	-	20,163
Development property	6,003	-	-	-	-	6,003
Other assets	14,881	15	-	810	-	15,706
Property and equipment	7,755	-	-	-	-	7,755
Total assets	**730,200**	**19,479**	**11,761**	**20,112**	**3,668**	**785,220**
Liabilities						
Placements from financial institutions	124,265	-	-	-	-	124,265
Placements from non-financial institutions and individuals	61,359	-	-	-	-	61,359
Medium-term borrowing	41,308	-	-	-	-	41,308
Customers' current accounts	67,332	6,921	-	580	-	74,833
Other liabilities	7,953	-	-	-	-	7,953
Total liabilities	**302,217**	**6,921**	**-**	**580**	**-**	**309,718**
Equity of investment account holders	**354,290**	**3,043**	**-**	**2,485**	**-**	**359,818**
Restricted investment accounts	**9,783**	**-**	**-**	**-**	**993**	**10,776**
Commitments and financial guarantee	**65,893**	**1,244**	**-**	**-**	**-**	**67,137**

Concentration by location for financing assets is measured based on the location of the counterparty, which has a high correlation with the location of the collateral for the exposure.

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29. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic sector (continued)

31 December 2016	GCC countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	47,152	2,790	6,057	7	-	56,006
Placements with financial institutions	78,714	-	-	-	-	78,714
Financing assets	336,485	18,892	-	-	-	355,377
Investment in sukuk	74,154	-	-	-	-	74,154
Assets acquired for leasing (including lease rentals receivable)	95,412	-	-	-	-	95,412
Investment in equity securities	30,985	-		20,468	3,668	55,121
Investment in real estate	21,508	-	-	-	-	21,508
Development property	6,003	-	-	-	-	6,003
Other assets	13,777	15	-	704	-	14,496
Property and equipment	8,208	-	-	-	-	8,208
Total assets	712,398	21,697	6,057	21,179	3,668	764,999
Liabilities						
Placements from financial institutions	59,079	-	-	-	-	59,079
Placements from non-financial institutions and individuals	100,649	-	-	-	-	100,649
Customers' current accounts	74,025	1,692	-	97	-	75,814
Other liabilities	8,311	-	-	-	-	8,311
Total liabilities	242,064	1,692	-	97	-	243,853
Equity of investment account holders	401,529	484	-	2,638	-	404,651
Restricted investment accounts	9,956	-	-	-	993	10,949
Commitments and Financial guarantees	88,414	52	-	-	-	88,466

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30. FAIR VALUE

a) Fair value of financial instruments

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

The fair value of quoted sukuk carried at amortised cost of BD 113,199 thousand (31 December 2016: BD 73,443 thousand) is BD 112,077 thousand as at 31 December 2017 (31 December 2016: BD 72,423 thousand).

In case of financing assets and lease receivables, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets. Other than equity investments carried at cost of BD 39,519 thousand (2016: BD 39,973 thousand), the estimated fair values of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

b) Fair value hierarchy

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

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

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Unquoted equity type securities carried at fair value through income statement	-	-	13,148	13,148
	-	**-**	**13,148**	**13,148**

31 December 2016	Level 1	Level 2	Level 3	Total
Unquoted equity type securities carried at fair value through income statement	-	-	15,148	15,148
	-	-	15,148	15,148

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30. FAIR VALUE (continued)

b) Fair value hierarchy (continued)

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2017	2016
At 1 January	15,148	15,148
Total gains or losses in income statement	(2,000)	-
Purchases	-	-
At 31 December	**13,148**	15,148

31. RISK MANAGEMENT

Introduction and overview

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

- credit risk
- liquidity risk
- market risks
- operational risks

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established an Executive Risk Management Committee, which is responsible for developing and monitoring the Bank's risk management policies in the specified areas. The committee also continuously monitors consistent implementation of the Board approved policies in the Bank and reports deviations, if any, to the Board. The committee consists of heads of business and other functional units in the Bank and reports regularly to the Board Audit and Risk Management Committee.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Audit and Risk Management Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Management Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

31. RISK MANAGEMENT (continued)

CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's exposures to placements with financial institutions, financing assets, outstanding assets acquired for leasing, investment in sukuk and receivables classified under other assets. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual and group exposure risk, country and sector concentration risk, related party exposure, etc.).

The Bank monitors the total exposure to assets acquired for leasing (including lease rentals receivable) on a cumulative basis for monitoring of market risk and credit risk.

The Board of Directors has delegated responsibility for the management of credit risk to its Executive Credit & Investment Committee (ECICOM). A separate Risk Management and Credit Management Department (RMD), reporting to the ECICOM is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements and submitting the same for approval to the Board of Directors.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Smaller exposures are approved by the heads of business units within the appetite approved and granted by the Board of Directors. Larger facilities require approval by the Chief Executive Officer, ECICOM, Board Investment and Credit Committee or the full Board, as the case may be.
- Reviewing and assessing credit risk. RMD assesses all credit exposures and signs off on the relevant proposals prior to approval of the facilities by the appropriate authorities. Renewal and review of facilities are subject to the same process.
- Limiting concentrations of exposure to counterparties, countries and industries in respect of financing assets, assets acquired for leasing as well as investments.
- Developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of probable risk of financial loss to focus management on the attendant risks. The risk grading system is also used to identify specific exposures for which impairment provisions may be required. The risk grading framework for the Bank's financing portfolio consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate on the recommendations of the RMD. Risk grades are subject to regular reviews by RMD.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are submitted to the Board on the compliance levels. RMD also provides advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Each business unit is required to implement the Bank's credit policies and procedures in respect of exposures assumed by them and are responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, irrespective of the approving authority for the exposure. Regular audits of business units and Bank credit processes are undertaken by Internal Audit.

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31. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposure to credit risk

31 December 2017	Placements with financial institutions	Financing assets	Assets acquired for leasing (including lease rental receivable)	Investment in sukuk	Other financial assets	Total
Impaired						
Grade 8-10						
Impaired	-	55,045	5,926	1,564	-	62,535
Unrated	-	-	-	-	5,869	5,869
Allowance for impairment	-	(6,730)	(79)	(1,417)	(997)	(9,223)
Carrying amount	**-**	**48,315**	**5,847**	**147**	**4,872**	**59,181**
Past due but not impaired						
Grade 1-6 Low-Fair Risk	-	19,965	8,432	-	-	28,397
Grade 7 Watch list	-	8,690	10,599	-	-	19,289
Past due comprises:						
Up to 30 days	-	18,235	10,512	-	-	28,747
30-60 days	-	7,332	2,793	-	-	10,125
60-90 days	-	3,088	5,726	-	-	8,814
Carrying amount	**-**	**28,655**	**19,031**	**-**	**-**	**47,686**
Neither past due nor impaired						
Grade 1-6 Low-Fair Risk	33,969	272,260	79,612	113,200	-	499,041
Grade 7 Watch list	-	8,641	2,345	-	-	10,986
Unrated	-	-	-	-	10,834	10,834
Carrying amount	**33,969**	**280,901**	**81,957**	**113,200**	**10,834**	**520,861**
Less: **Collective impairment provisions**	-	(3,367)	(1,052)	-	-	(4,419)
Total	**33,969**	**354,504**	**105,783**	**113,347**	**15,706**	**623,309**

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31. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposure to credit risk (continued)

31 December 2016	Placements with financial institutions	Financing assets	Assets acquired for leasing (including lease rental receivable)	Investment in sukuk	Other financial assets	Total
Impaired						
Grade 8-10 Impaired	-	42,978	2,793	1,733	-	47,504
Unrated	-	-	-	-	6,740	6,740
Allowance for impairment	-	(15,165)	-	(1,021)	(1,957)	(18,143)
Carrying amount	-	27,813	2,793	712	4,783	36,101
Past due but not impaired						
Grade 1-6 Low-Fair Risk	-	28,511	10,934	-	-	39,445
Grade 7 Watch list	-	2,512	1,716	-	-	4,228
Past due comprises:						
Up to 30 days	-	24,490	10,487	-	-	34,977
30-60 days	-	5,521	1,113	-	-	6,634
60-90 days	-	1,012	1,050	-	-	2,062
Carrying amount	-	31,023	12,650	-	-	43,673
Neither past due nor impaired						
Grade 1-6 Low-Fair Risk	78,714	286,995	79,697	73,442	-	518,848
Grade 7 Watch list	-	12,950	1,231	-	-	14,181
Unrated	-	-	-	-	9,713	9,713
Carrying amount	78,714	299,945	80,928	73,442	9,713	542,742
Less: Collective impairment provisions	-	(3,404)	(959)	-	-	(4,363)
Total	78,714	355,377	95,412	74,154	14,496	618,153

31. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Impaired financial assets
Impaired financial assets are those for which the Bank determines that it is probable that it will be unable to collect all or part of the principal and profit due according to the contractual terms of the exposure and these fall under risk grades 8, 9 and 10, for other financial assets impairment is assessed on an individual basis for each exposure under the Bank's internal credit risk grading system.

Past due but not impaired exposures
The exposure pertains to financing assets where contractual profit or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of subsequent collections, the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Renegotiated facilities
During the year, facilities of BD 25,160 thousands (2016: BD 28,471 thousand) were renegotiated, out of which BD 2,000 thousand (2016: BD 15,047 thousand) are classified as neither past due nor impaired as of 31 December 2017. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of BD 117,168 thousand (2016: BD 74,279 thousand) only instalments of BD 13,352 thousand (2016: BD 20,142 thousand) are past due as at 31 December 2017.

Allowances for impairment
The Bank makes provisions for impairment on individual assets classified under grades 8,9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Bank has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Non-accrual basis
Bank classifies financing facility/Sukuk as non-accrual status, if the facility/Sukuk is past due greater than 90 days or there is reasonable doubt about the collectability of the receivable amount. The profits on such facilities are not recognized in the income statement until there are repayments from the borrower or the exposure is upgraded to regular status.

Write-off policy
The Bank writes off an asset/security balance (net of any related allowances for impairment losses) when it determines that the asset/security are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that he can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the year, the Bank has written off financing facilities amounting to BD 13,228 thousand (2016: BD 2,806 thousand) which were fully impaired. The Bank has recovered BD 38 thousand from a financing facility written off in previous years (2016: 2,366).

Collaterals
The Bank holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and updated periodically, generally at annual intervals. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

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31. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Collaterals (continued)

	As at 31 December 2017			As at 31 December 2016		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	28,545	5,844	**34,389**	14,585	2,785	**17,370**
Other	2,175	-	**2,175**	3,222	-	**3,222**
Against past due but not impaired						
Property	23,193	21,428	**44,621**	27,620	17,910	**45,530**
Other	5,182	-	**5,182**	2,110	-	**2,110**
Against neither past due nor impaired						
Property	94,368	78,575	**172,943**	94,323	77,404	**171,727**
Equities	-	-	**-**	398	-	**398**
Other	25,566	20	**25,586**	32,243	-	**32,243**
Total	**179,029**	**105,867**	**284,896**	174,501	98,099	272,600

The average collateral coverage ratio on secured facilities is 126.86% at 31 December 2017 (31 December 2016: 114.47%)

For analysis of concentration of total assets and liabilities refer note 29.

Further, for financing assets and assets acquired for leasing the Bank monitors concentrations of credit risk by sector and by geographic location.

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31. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

An analysis of concentrations of credit risk at the reporting date is shown below:

Concentration by Sector	**As at 31 December 2017**			As at 31 December 2016		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	11,011	-	**11,011**	12,358	-	12,358
Real estate	39,771	105,715	**145,486**	59,457	94,488	153,945
Construction	35,917	-	**35,917**	28,788	-	28,788
Trading	90,691	-	**90,691**	99,777	-	99,777
Manufacturing	45,090	-	**45,090**	39,389	-	39,389
Others	132,024	68	**132,092**	115,608	924	116,532
Total carrying amount	**354,504**	**105,783**	**460,287**	355,377	95,412	450,789

Settlement risk
The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from RMD.

LIQUIDITY RISK
Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

Management of liquidity risk
The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Financial Control Department (FCD) collates data from treasury and other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. FCD communicates the information to the treasury who manages the Bank's portfolio of short-term liquid assets, largely made up of short-term placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored by FCD. The Bank has in place a Liquidity Contingency Plan, the elements of which are periodically tested. Tools for implementation of regular stress testing under various scenarios are in place. All liquidity policies and procedures are subject to review by ALCO and approval by appropriate authorities. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO members.

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31. RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For computation of this, net liquid assets are considered as including cash and bank balances and placements with financial Institutions and investments in sukuk net of sukuk pledged against medium-term borrowing less placements from financial institution, and deposits comprise current accounts, placements from non-financial institutions and individuals, and equity of investment account holders.

Details of the reported Bank ratio of net liquid assets to deposits and customers current accounts at the reporting date and during the reporting period were as follows:

	2017	2016
	%	%
At 31 December	9.3	25.81
Average for the period	18.26	20.26
Maximum for the period	29.97	26.21
Minimum for the period	5.15	11.81

For maturity profile of assets and liabilities refer note 28.

MARKET RISK

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income, future cash flows or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. The Bank has no trading positions in equity or commodities and the main source of market risk for the Bank is its foreign exchange exposure and profit rate gap.

The Bank does not do any trading in foreign exchange. The Bank does not engage in proprietary trading of foreign exchange derivatives. All foreign exchange income/ losses arising out of customer transactions and revaluation of statement of financial position assets and liabilities are booked by the treasury operations. The responsibility for monitoring and managing the related risks also rests with the Treasury department.

Overall authority for market risk management is vested with ALCO. The RMD is responsible for the development of detailed risk management policies (subject to review and approval by appropriate approval authorities) and the Financial Control Department is responsible for the day-to-day review of their implementation.

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31. RISK MANAGEMENT (continued)

MARKET RISK (continued)

Exposure to profit rate risk–non–trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Bank's Risk Management Department in its day-to-day monitoring activities.

A summary of the Bank's profit rate gap position at 31 December 2017 is as follows:

31 December 2017	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	32,921	-	1,048	-	-	**33,969**
Financing assets	51,219	12,275	53,402	62,832	174,776	**354,504**
Assets acquired for leasing (including lease rentals receivable)	-	7	-	7,777	97,999	**105,783**
Investments securities (sukuk)	-	-	284	147	112,916	**113,347**
Total profit rate sensitive assets	**84,140**	**12,282**	**54,734**	**70,756**	**385,691**	**607,603**
Liabilities and investment accounts						
Placements from financial institutions	91,652	14,319	11,505	6,789	-	**124,265**
Medium-term borrowing	-	-	-	41,308	-	**41,308**
Placements from non-financial institutions and individuals	7,630	9,660	24,606	19,463	-	**61,359**
Customers' current accounts	1,286	-	-	-	-	**1,286**
Equity of investments account holders	190,691	66,559	88,789	13,778	1	**359,818**
Total profit rate sensitive liabilities and investment accounts	**291,259**	**90,538**	**124,900**	**81,338**	**1**	**588,036**
Profit rate gap	**(207,119)**	**(78,256)**	**(70,166)**	**(10,582)**	**385,690**	**19,567**

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31. RISK MANAGEMENT (continued)

MARKET RISK (continued)

31 December 2016	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	77,686	-	1,028	-	-	78,714
Financing assets	26,154	16,977	40,784	81,503	189,959	355,377
Assets acquired for leasing (including lease rentals receivable)	148	7	13	1,354	93,890	95,412
Investments securities (sukuk)	74,154	-	-	-	-	74,154
Total profit rate sensitive assets	178,142	16,984	41,825	82,857	283,849	603,657
Liabilities and investment accounts						
Placements from financial institutions	44,234	-	-	14,845	-	59,079
Placements from non-financial institutions and individuals	16,270	15,045	53,982	14,447	905	100,649
Customers' current accounts	1,930	-	-	-	-	1,930
Equity of investments account holders	216,220	88,076	84,536	15,819	-	404,651
Total profit rate sensitive liabilities and investment accounts	278,654	103,121	138,518	45,111	905	566,309
Profit rate gap	(100,512)	(86,137)	(96,693)	37,746	282,944	37,348

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise across all yield curves and a 50 bp rise or fall of all yield curves.

An analysis of the Bank's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position position) is as follows:

	100bp parallel increase/ decrease	**50bp increase/ decrease**
At 31 December 2017	**±196**	**±98**
At 31 December 2016	±373	±187

Overall non-trading profit rate risk positions are managed by Treasury department, which uses short term investment securities, placement with banks and placement from banks to manage the overall position arising from the Bank's non-trading activities.

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31. RISK MANAGEMENT (continued)

MARKET RISK (continued)

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group had the following significant net exposures denominated in foreign currency as of 31 December.

	2017 BHD Equivalent	2016 BHD Equivalent
US Dollars*	14,237	(23,085)
Other GCC Currencies *	(7,707)	26,783
Euros	(297)	3,580
Australian Dollars	4,607	4,608
Kuwaiti Dinars	3,544	3,074
Sterling Pounds	480	984
Indian Rupee	9	7

(*) The exposure in US dollars and other GCC currencies does not create any foreign exchange risk for the Bank since Bahrain Dinars and other GCC currencies except for Kuwaiti Dinars are effectively pegged to the US Dollars.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 5% plus/minus increase in exchange rates, for currencies other than US Dollars, other GCC currencies.

An analysis of the Bank's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2017 BHD Equivalent	2016 BHD Equivalent
Euros	±15	±179
Australian Dollars	±230	±230
Kuwaiti Dinars	±177	±154
Sterling Pounds	±24	±49
Indian Rupees	-	-

Exposure to other price risks–non–trading portfolios

Credit spread risk on debt securities is subject to regular monitoring by RMD, but is not currently significant in relation to the overall financial position of the Bank.

The Group's unquoted equity securities carried at cost are exposed to risk of changes in equity values. Refer to note 21 for significant estimates and judgments in relation to impairment assessment of unquoted equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Investment and Credit Committee.

31. RISK MANAGEMENT (continued)

MARKET RISK (continued)

OPERATIONAL RISK

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the bank. The Bank already has an approved policy for doing this and all required organisational and physical infrastructure are in place.

The Bank has completed conducting one cycle of Risk Control Self-Assessment (RCSA) of Operational risk for majority of the departments of the Bank to identify the important Key Risk Areas, Key Risk Indicators and Key Risk Triggers. Furthermore for the remaining departments Key Risk Areas have been identified and the next process will be the identification of Key Risk Indicators and Key Risk Triggers. The RCSA process is a continuous process and will be conducted at regular frequencies across the Bank. It will be an annual process to review all the KRI's. A software for monitoring these triggers and recording actual and near miss losses is already in place. The medium term objective of the Bank is to generate statistically reliable data to upgrade to more sophisticated modes of Operational Risk Control both to manage the risk better and to reduce capital commitment.

CAPITAL MANAGEMENT

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

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

- Tier 1 capital: includes CET1 and AT1.
  CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

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

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

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31. RISK MANAGEMENT (continued)

CAPITAL MANAGEMENT (continued)

The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2016 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the 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.

As at 31 December 2017 the Bank has made regulatory adjustments of BD 11,325 thousand (2016: 10,386 thousand) in line with the CBB requirements.

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

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

	31 December 2017	31 December 2016
Total risk weighted exposure	**683,784**	628,875
Tier 1 capital:		
- CET 1 capital prior to regulatory adjustments	123,141	121,462
- Less: regulatory adjustments	(11,325)	(10,386)
CET 1 after regulatory adjustments	111,816	111,076
AT 1	-	-
Tier 2 capital:	4,419	4,362
Total regulatory capital	**116,235**	115,438
Total regulatory capital expressed as a percentage of total risk weighted assets	**17.00%**	18.36%
Liquidity coverage ratio	**111.99%**	154.25%
Net stable funding ratio	**196.01%**	80.80%
Leverage ratio	**19.02%**	19.92%

The Bank has complied with all externally imposed capital requirements throughout the year.

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31. RISK MANAGEMENT (continued)

CAPITAL MANGEMENT (continued)

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

32. COMMITMENTS

The commitments contracted in the normal course of business of the Bank:

	2017	2016
Undrawn commitments to extend finance	48,747	65,797
Financial guarantees	18,390	22,669
	67,137	88,466

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of certain of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2017 due to the performance of any of its projects.

33. SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations.

34. COMPARITIVES

Certain prior year amounts have been regrouped to conform the current year's presentation. Such regrouping did not affect previously reported profit for the year or owner's equity.