

**BAHRAIN ISLAMIC BANK B.S.C.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

Commercial registration	:	9900 (registered with Central Bank of Bahrain as a retail Islamic bank)
Board of directors	:	Dr. Esam Abdulla Fakhro, <i>Chairman</i> Brig. Ebrahim Abdulla Al Mahmood, <i>Vice Chariman</i> Talal Ali Al Zain Khalil Ebrahim Nooruddin Mohammed Ahmed Al Khaja Khalid Yousif Abdulrahman Ebrahim Husain Ebrahim Aljassmi Othman Ebrahim Naser Al Askar Muhammad Zarrug Rajab
Office	:	Salam Tower, Diplomatic Area PO Box 5240 Manama, Kingdom of Bahrain Telephone 17 546-111, Telefax 17 535-808
Auditors	:	KPMG Fakhro

**CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2017**

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## Board of Directors Report

In the name of Allah, the Most Beneficent, the Most Merciful. Prayers and Peace be upon the Last Apostle and Messenger, Our Prophet Mohammed, His Comrades and Relatives.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bahrain Islamic Bank (BisB) for the year ended 31 December 2017. The five-year plan for the Bank is now in its fourth year, and our Back to Basics strategy continues full steam ahead with positive momentum showing significant improvements in nearly all aspects of the Bank's business.

Despite a turbulent 2017 throughout the region, BisB's key performance indicators have all reflected positive developments. The Bank was able to generate quality earnings of BD 42.9M and a net profit figure of BD 10.1M, a 20% improvement over 2016. Earnings per share amounted to 10.14 fils compared to 8.41 fils in 2016.

Financing assets grew to BD 740.7M, an 11% increase over the same period last year. The Bank's risk appetite remains prudent, evidenced by setting aside provisions of BD 12.5M vs. BD 12.8M last year, affirming a disciplined and cautious approach. Recoveries and write back, on the other hand, showed a healthy BD6.3M compared to BD 3.1M last year.

All the major businesses in the Bank performed well, showing healthy financing asset growth and profitability with a marked increase in the Bank's investments in GCC Sukuks.

Our commitment to investing in local talent continues through strengthening of the Bank's senior management team to ensure proper succession in the future. I am proud to declare that we have recruited the first Bahraini female as Head of Retail Banking in the history of BisB and our resolve towards diversity in our work force by promoting qualified Bahraini women is stronger than ever.


Financial technology (FinTech) has become an integral part of the banking business, adding non-banks to the already crowded field of competitors in our industry. BisB is gearing towards a digital world by investing in technology, introducing new e-payment products to be delivered through the Bank's recently launched best-in-class mobile banking.

The challenges of 2017 will continue in 2018. Stagnant oil prices, growing public debt throughout the region and a fluid political and social environment will add to the uncertainty. Despite that, we believe that Bahrain remains an attractive investment destination, especially in the FinTech space, which the government of Bahrain and the Central Bank have been promoting recently.

I remain optimistic toward the future of BisB in the coming years. A lot has been accomplished in the past three years to bring the Bank back to health by re-introducing and adhering to the basics. However, much remains to be done to maintain our momentum.

On behalf of the shareholders, the Directors express their grateful thanks and sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa - the King of Bahrain, to His Royal Highness Shaikh Khalifa bin Salman Al Khalifa – the Prime Minister, to His Royal Highness Shaikh Salman bin Hamad Al Khalifa – the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister. The Directors also extend their thanks to all Government ministries and authorities – especially the Central Bank of Bahrain and the Ministry of Industry, Commerce & Tourism, for their steadfast guidance, kind consideration and constant support.

The Directors' also acknowledge the advice and supervision of BisB's Sharia'a Supervisory Board, as well as the unstinting dedication and service from the management and staff of the Bank, whose commitment contributes so much to the success of the organization. To our business partners and loyal customers, we are grateful to each and every one for their unstinting valued support and confidence in Bahrain Islamic Bank.



Dr. Esam Abdulla Fakhro  
Chairman of the Board

## Sharia'a Supervisory Board report

For the year ended on 31/12/2017

In The Name of Allah, most Gracious,  
Most Merciful Peace and Blessings Be Upon His Messenger.

To the shareholders of Bahrain Islamic Bank B.S.C.

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

The Sharia'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Sharia perspective for the financial year ending on 31<sup>st</sup> December 2017, in fulfillment to the mandate conferred upon it by BisB's Articles of Association:

- The Sharia'a Supervisory Board monitored the operations, related to the Bank throughout the year ended on 31st December 2017 to express opinion on the Bank's adherence to the provisions and principles of Islamic Sharia'a in its activities by following the fatwas, decisions and the specific guidelines issued from our side.
- The Sharia'a Supervisory Board believes that ensuring the conformity of Bank's activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report to you.
- We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a and Fatwas and decisions of the Sharia'a Board.
- Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Sharia'a Department in conformity with the methodology approved by the Sharia'a Board.
- The Sharia'a Internal Audit department performed its mission of auditing the transactions executed by the Bank and submitted its periodic reports to the Sharia'a Supervisory Board, which confirmed the Bank's adherence in its dealings and investments with the Sharia'a Board's fatwas and decisions.
- The 13 reports submitted by Internal Sharia Audit Department to the Sharia'a Supervisory Board included results of auditing the files, contracts, executed deals

Shaikh Dr. A.Latif Mahmood Al Mahmood  
Chairman

Shaikh Mohammed Jaffar Al Juffairi  
Vice Chairman

Shaikh Adnan Abdullah Al Qattan  
Member

Shaikh Dr. Nedham M. Saleh Yacoubi  
Member

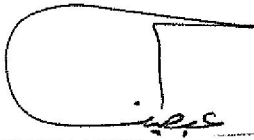
Shaikh Dr. Essam Khalaf Al Onazi  
Member

in fulfillment to the Sharia'a Board annual approved audit plan. The Sharia'a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Sharia principles and Fatwas and decisions of the Sharia'a Board.

- The Sharia Board and its Committees held (14) meetings during the year and issued (116) decisions and fatwas, and approved (88) contracts.
- The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2017, the income statement, the attached notes and the Zakat calculation methods. The Sharia'a Supervisory Board believes that:
  1. All the Financial Statements inspected by the Sharia'a Board conform to what has been approved by the Board, and to the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions AAOIFI.
  2. Contracts, and transactions conducted by the Bank throughout were in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.
  3. The distribution of profit and allocation of losses on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board and in accordance to Islamic Sharia.
  4. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'a, have been directed to the Charity and Donations Fund.
  5. Zakah was calculated according to the provisions and principles of Islamic Sharia'a, by the net invested assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the financial report.
  6. The Bank was committed to the Sharia'a standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).

We pray that Allah may grant all of us further success and prosperity.

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh.




Shaikh Dr. A.Latif Mahmood Al Mahmood  
Chairman



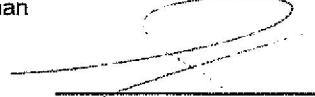
Shaikh Mohammed Jaffar Al Juffairi  
Vice Chairman



Shaikh Adnan Abdullah Al Qattan  
Member



Shaikh Dr. Nedham M. Saleh Yacoubi  
Member



Shaikh Dr. Essam Khalaf Al Onazi  
Member





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CR No. 6220

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bahrain Islamic Bank B.S.C.  
Manama, Kingdom of Bahrain

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiary (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of income, cash flows, changes in owners' equity, sources and uses of good faith qard fund 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 owners' equity, its consolidated sources and uses of good faith qard fund, 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 Group.

### 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 statement 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 Fakhro  
Partner Registration No. 100  
12 February 2018

# Bahrain Islamic Bank B.S.C.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 BD'000	2016 BD'000
<b>ASSETS</b>			
Cash and balances with banks and Central Bank	3	69,666	63,208
Placements with financial institutions	4	80,845	63,805
Financing assets	5	561,822	506,456
Investment securities	6	258,399	145,731
Ijarah Muntahia Bittamleek	8	164,397	151,752
Ijarah rental receivables	9	14,483	8,618
Investment in associates	7	23,739	26,487
Investment in real estate	11	29,831	29,510
Property and equipment	10	14,270	14,647
Other assets	12	11,195	11,793
<b>TOTAL ASSETS</b>		<b>1,228,647</b>	<b>1,022,007</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Placements from financial institutions		67,872	92,454
Borrowings from financial institutions	13	101,576	11,420
Customers' current accounts		131,666	132,466
Other liabilities	14	11,507	14,879
<b>Total Liabilities</b>		<b>312,621</b>	<b>251,219</b>
<b>Equity of Investment Accountholders</b>	15	<b>793,756</b>	<b>654,316</b>
<b>Owners' Equity</b>			
Share capital	16	101,339	101,339
Treasury shares	16	(864)	(563)
Shares under employee share incentive scheme		(498)	(604)
Share premium		98	56
Reserves		22,195	16,244
<b>Total Owners' Equity</b>		<b>122,270</b>	<b>116,472</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>		<b>1,228,647</b>	<b>1,022,007</b>

The consolidated financial statements, which consist of pages 6 to 48, were approved by the Board of Directors on 12 February 2018 and signed on its behalf by:

		
_____ Dr. Esam Abdulla Fakhro Chairman	_____ Brig. Ebrahim Abdulla Al Mahmood Vice Chairman	_____ Hassan Amin Jarrar Chief Executive Officer



**Bahrain Islamic Bank B.S.C.**  
**CONSOLIDATED INCOME STATEMENT**  
For the year ended 31 December 2017

	Note	2017 BD'000	2016 BD'000
<b>INCOME</b>			
Income from financing	19	40,507	34,881
Income from investment in Sukuk		6,808	4,096
<b>Total income from jointly financed assets</b>		<b>47,315</b>	<b>38,977</b>
Return on equity of investment accountholders		(36,010)	(29,301)
Group's share as Mudarib		24,646	22,170
Net return on equity of investment accountholders	15.5	(11,364)	(7,131)
<b>Group's share of income from jointly financed assets (both as mudarib and investor)</b>		<b>35,951</b>	<b>31,846</b>
Expense on placements from financial institutions		(1,018)	(1,002)
Expense on borrowings		(2,032)	(223)
Fee and commission income		7,642	6,768
Income from investment securities	20	513	739
Income from investment in real estate	21	213	(563)
Share of results of associates, net	7	(1,103)	(437)
Other income	22	2,740	4,544
<b>Total income</b>		<b>42,906</b>	<b>41,672</b>
<b>EXPENSES</b>			
Staff costs		12,611	11,181
Depreciation	10	1,570	1,519
Other expenses	23	12,387	10,820
<b>Total expenses</b>		<b>26,568</b>	<b>23,520</b>
<b>Profit before impairment allowances</b>		<b>16,338</b>	<b>18,152</b>
Impairment provision on financing assets, net	24.1	(2,537)	(2,091)
Impairment provisions on investments, net	24.2	(3,660)	(7,641)
<b>PROFIT FOR THE YEAR</b>		<b>10,141</b>	<b>8,420</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (fils)</b>	26	<b>10.14</b>	<b>8.41</b>



Dr. Esam Abdulla Fakhro  
Chairman



Brig. Ebrahim Abdulla Al Mahmood  
Vice Chairman



Hassan Amin Jarrar  
Chief Executive Officer

# Bahrain Islamic Bank B.S.C.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 BD'000	2016 BD'000
<b>OPERATING ACTIVITIES</b>			
Profit for the year		10,141	8,420
Adjustments for non-cash items:			
Depreciation	10	1,570	1,519
Impairment provisions on financing assets, net	24.1	2,537	2,091
Impairment provisions on investments, net	24.2	3,660	7,641
Loss on sale of investment in associates		83	-
Impairment charge on investment in real estate	21	119	82
Loss on sale of investment in real estate	21	39	843
Gain on sale of investment securities		(3)	-
Share of results of associates, net	7	1,103	437
<b>Operating profit before changes in operating assets and liabilities</b>		<b>19,249</b>	<b>21,033</b>
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		(1,440)	300
Financing assets		(57,605)	(52,789)
Ijarah Muntahia Bittamleek		(18,808)	(26,697)
Other assets		739	1,822
Customers' current accounts		(800)	(4,653)
Other liabilities		(3,596)	(1,711)
Placements from financial institutions		(24,582)	10,358
Equity of investment accountholders		139,440	54,912
<b>Net cash from operating activities</b>		<b>52,597</b>	<b>2,575</b>
<b>INVESTING ACTIVITIES</b>			
Capitalized expenditure of investment in real estate		(28)	-
Disposal of investment in real estate		314	12,868
Disposal of investment in associates		1,348	-
Purchase of investment securities		(119,546)	(51,681)
Purchase of property and equipment		(1,193)	(760)
Proceeds from disposal of investment securities		3,538	30,073
<b>Net cash used in investing activities</b>		<b>(115,567)</b>	<b>(9,500)</b>
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury shares		(301)	-
Borrowings from financial institutions		90,156	-
Dividends paid		(4,827)	(26)
<b>Net cash from / (used in) financing activities</b>		<b>85,028</b>	<b>(26)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>22,058</b>	<b>(6,951)</b>
Cash and cash equivalents at 1 January		90,736	97,687
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>112,794</b>	<b>90,736</b>
Cash and cash equivalents comprise of:			
Cash on hand	3	13,042	12,829
Balances with CBB, excluding mandatory reserve deposits	3	3,654	3,877
Balances with banks and other financial institutions excluding restricted balances	3	15,253	10,225
Placements with financial institutions with original maturities less than 90 days	4	80,845	63,805
		<b>112,794</b>	<b>90,736</b>



Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2017

	Shares under employee share				Reserves				Total owners' equity BD'000	
	Share capital BD'000	Treasury shares BD'000	incentive scheme BD'000	under share	Share premium BD'000	Statutory reserve BD'000	Real estate fair value reserve BD'000	Investment securities fair value reserve BD'000		Retained earnings BD'000
Balance at 1 January 2017	101,339	(563)	(604)	56	1,963	5,361	531	8,389	16,244	116,472
<b>Profit for the year</b>	-	-	-	-	-	-	-	10,141	10,141	10,141
Dividends declared for 2016	-	-	-	-	-	-	-	(5,051)	(5,051)	(5,051)
Zakah approved	-	-	-	-	-	-	-	(137)	(137)	(137)
Purchase of treasury shares	-	(301)	-	-	-	-	-	-	-	(301)
Shares allocated during the year	-	-	106	42	-	-	-	-	-	148
Net movement in investment securities fair value reserve	-	-	-	-	-	-	214	-	214	214
Net movement in real estate fair value reserve	-	-	-	-	-	784	-	-	784	784
Transfer of profit to statutory reserve	-	-	-	-	1,014	-	-	(1,014)	-	-
<b>Balance at 31 December 2017</b>	<b>101,339</b>	<b>(864)</b>	<b>(498)</b>	<b>98</b>	<b>2,977</b>	<b>6,145</b>	<b>745</b>	<b>12,328</b>	<b>22,195</b>	<b>122,270</b>
Balance at 1 January 2016	97,441	(563)	(879)	2,794	1,121	7,085	621	1,892	10,719	109,512
Profit for the year	-	-	-	-	-	-	-	8,420	8,420	8,420
Bonus shares	3,898	-	(23)	(2,794)	-	-	-	(1,081)	(1,081)	-
Shares allocated during the year	-	-	298	56	-	-	-	-	-	354
Net movement in investment securities fair value reserve	-	-	-	-	-	-	(90)	-	(90)	(90)
Net movement in real estate fair value reserve	-	-	-	-	-	(1,724)	-	-	(1,724)	(1,724)
Transfer of profit to statutory reserve	-	-	-	-	842	-	-	(842)	-	-
Balance at 31 December 2016	101,339	(563)	(604)	56	1,963	5,361	531	8,389	16,244	116,472

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

Bahrain Islamic Bank B.S.C.

**CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND**

For the year ended 31 December 2017

	<i>Qard Hasan receivables BD'000</i>	<i>Funds available for Qard Hasan BD'000</i>	<i>Total BD'000</i>
<b>Balance at 1 January 2017</b>	<u>65</u>	<u>63</u>	<u>128</u>
Uses of Qard fund			
Marriage	13	(13)	-
Others (Waqf)	24	(24)	-
<b>Total uses during the year</b>	<u>37</u>	<u>(37)</u>	<u>-</u>
Repayments	(31)	31	-
<b>Balance at 31 December 2017</b>	<u><u>71</u></u>	<u><u>57</u></u>	<u><u>128</u></u>
Balance at 1 January 2016	<u>60</u>	<u>68</u>	<u>128</u>
Uses of Qard fund			
Marriage	5	(5)	-
Others (Waqf)	21	(21)	-
<b>Total uses during the year</b>	<u>26</u>	<u>(26)</u>	<u>-</u>
Repayments	(21)	21	-
<b>Balance at 31 December 2016</b>	<u><u>65</u></u>	<u><u>63</u></u>	<u><u>128</u></u>
		<i>2017 BD'000</i>	<i>2016 BD'000</i>
<b>Sources of Qard fund</b>			
Contribution by the Bank		125	125
Donation		3	3
		<u><u>128</u></u>	<u><u>128</u></u>

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2017

	<b>2017</b> <b>BD'000</b>	<b>2016</b> <b>BD'000</b>
<b>Sources of zakah and charity funds</b>		
Undistributed zakah and charity funds at the beginning of the year	<b>222</b>	472
Non-Islamic income / late payment fee	<b>500</b>	248
Donations	<b>147</b>	1
<b>Total sources of zakah and charity funds during the year</b>	<b>869</b>	<b>721</b>
<b>Uses of zakah and charity funds</b>		
Philanthropic societies	<b>253</b>	139
Aid to needy families	<b>357</b>	360
<b>Total uses of funds during the year</b>	<b>610</b>	<b>499</b>
<b>Undistributed zakah and charity funds at the end of the year</b>	<b>259</b>	<b>222</b>

## 1 REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has eight branches (2016: nine), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its wholly owned subsidiary (together the "Group"). The Bank holds 100% of the share capital of Abaad Real Estate Company B.S.C. (c).

Abaad Real Estate Company B.S.C. (c) ("Abaad")

Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad started operations in 2007. The main activity of Abaad is investment in real estate (in accordance with the Islamic Shari'a rules and principles).

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors issued on 12 February 2018.

## 2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous years.

### a. New standards, amendments, and interpretations

*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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### a. New standards, amendments, and interpretations (continued)

*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; and

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.

Expected credit losses (ECL)

FAS 30 introduces the credit losses approach with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets 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
- Identifying groups of similar financial assets for the purpose 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 have to early adopt FAS 30 from 1 January 2018.

The Group estimates the FAS 30 transition amount will reduce shareholders' equity by approximately BD 13.7m 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.

#### Early adoption

The Group did not early adopt any new standards during the year.

### b. Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), and the Bahrain Commercial Companies Law. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses guidance from the relevant International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c. Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for "investment in real estate" and "equity type instruments carried at fair value through equity" that have been measured at fair value.

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 2 cc.

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), which is also the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

**d. Basis of consolidation**

Subsidiaries are all entities (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group to the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

**e. Cash and cash equivalents**

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain excluding mandatory reserve deposits, balances with banks and other financial institutions and placements with financial institutions with original maturities of 90 days or less when acquired.

**f. Placements with and borrowings from financial institutions**

*Placements with financial institutions*

Placements with financial institutions comprise commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated at amortised cost net of deferred profits and provision for impairment, if any. Wakala receivables are stated at amortised cost less provision for impairment, if any.

*Borrowings from financial institutions*

Borrowings from financial institutions comprise borrowings obtained through murabaha contract recognized on the origination date and carried at amortized cost.

**g. Financing assets**

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

**h. Murabaha financing**

Murabaha financing consist mainly of deferred sales transactions which are stated net of deferred profits and provisions for impairment, if any.

Murabaha financing are sales on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

**i. Musharaka financing**

Musharaka financing are stated at the fair value of consideration given less impairment, if any.

Musharaka financing are a form of capital partnership. Musharaka financing capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Group.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**j. Investment securities**

Investment securities comprise debt type instruments carried at amortised cost and equity type instruments carried at fair value through equity.

All investments securities, are initially recognised at fair value, being the value of the consideration given including transaction costs directly attributable to the acquisition.

*Debt type instruments carried at amortised cost*

These are investments which have fixed or determinable payments of profit and capital. Subsequent to initial recognition, these are measured at amortised cost using the effective profit rate method less impairment, if any. Any gain or loss on such instruments is recognised in the consolidated income statement when the instruments are de-recognised or impaired.

*Equity type instruments carried at fair value through equity*

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence residual interest in the assets of entity after reducing all its liabilities. On initial recognition, equity-type instruments that are not designated to fair value through income statement are classified as investments at fair value through equity.

Subsequent to acquisition, these are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is considered as impaired. On derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the consolidated income statement for the year.

Impairment losses on equity type instruments carried at fair value through equity are not reversed through the consolidated income statement and increases in their fair value after impairment are recognised directly in owners' equity.

**k. Measurement principles**

*Fair value measurement*

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar terms and risk characteristics.

Investments classified at fair value through equity where there is no quoted price or the Bank is unable to determine a reliable measure of fair value on a continuing basis are stated at cost less impairment allowances.

*Amortised cost*

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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****I. Investment in associates**

Associates are all entities in which the Group holds, between 20% and 50% of the voting rights and exercises significant influence, but not control or joint control, over the financial and operating policies of the entities. Investment in associates are accounted for using the equity method of accounting.

Investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss 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 the 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 Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates and the carrying value and recognises this amount in the consolidated income statement.

Accounting policies of the associates are consistent with the policies adopted by the Group.

**m. Ijarah Muntahia Bittamleek**

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.

**n. Investment in 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 initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured to fair value and changes in fair value (only gains) are recognised in a property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated income statement. If there are unrealised losses that have been recognised in the consolidated income statement in previous financial periods, the current period unrealised gain shall be recognised in the consolidated income statement to the extent of crediting back such previous losses in the consolidated income statement. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated income statement.

**o. Property and equipment**

Property and equipment is recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated income statement as incurred. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows;

Buildings	25 to 35 years
Fixtures and fittings	5 years
Equipment	5 years
Furniture	5 years



**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**p. 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. 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. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH.

Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation and 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.

**q. Investment risk reserve**

Investment risk reserves are amounts appropriated out of the income of equity of investment account holders, after allocating the Mudarib share, in order to cater for future losses for equity of investment account holders.

**r. Profit equalisation reserve**

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment account holders after taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment account holders.

**s. Zakah**

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net invested funds method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment account holders and other accounts is the responsibility of investment account holders.

**t. Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

**u. Dividends and board remuneration**

Dividends are recognised as liabilities in the year in which they are declared / approved by the shareholders.

**v. Derecognition of financial assets and liabilities**

*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**v. Derecognition of financial assets and liabilities (continued)**

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

*Financial liabilities*

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

**w. Treasury shares**

These are own equity instruments of the Group which are reacquired through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase or sale of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

**x. Earnings prohibited by Shari'a**

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

**y. Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legal or religious 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.

**z. Income recognition**

*Murabaha and Wakala*

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

*Musharaka*

Profit or losses in respect of the Bank's share in Musharaka financing transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka 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 Musharaka agreement.

*Sukuk*

Income from Sukuk is recognised using the effective profit rate over the term of the instrument.

*Placements with financial institutions*

Income on placements from financial institutions is recognised proportionately over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

*Ijarah Muntahia Bittamleek*

Income from Ijarah Muntahia Bittamleek is recognised proportionately over the lease term.

*Dividend income*

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

*Fee and commission income*

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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**aa. Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated income statement.

Translation gains or losses on non-monetary items carried at fair value are included in owners' equity as part of the fair value adjustment.

**bb. Impairment of financial assets**

An assessment is made at each consolidated financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be 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 the 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 borrower or issuers in the group or economic conditions that correlate with the defaults in the group. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated income statement. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. Impairment is determined as follows:

- (a) For equity-type securities carried at fair value through equity, a significant or prolonged decline in fair value below its cost is an objective evidence of impairment. If such evidence exists, impairment is measured as the difference between acquisition cost and current fair value, less any impairment loss previously recognised in the consolidated income statement.

For equity type instruments carried at fair value through equity, impairment losses recognised in the consolidated income statement are subsequently reversed through equity.

For investments classified at fair value through equity but carried at cost less impairment due to the absence of reliable 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 carried value of the investment.

- (b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

These include debt-type instruments, financing assets and receivables. 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. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific assets and collective level. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant accounts are written off. If the amount of impairment loss subsequently decreases and decrease can be related objectively to an event occurring after impairment was recognized, then the previously recognised impairment loss is reversed through income statement.

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 credit risk characteristics. In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**cc. Use of estimates and judgements in preparation of the consolidated financial statements**

In the process of applying the Group's accounting policies, management has made estimates and judgements in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

*Going concern*

The Bank's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

*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.j].

*Impairment of equity investments*

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

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

For unquoted equity investments carried at cost, 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. In making this judgment, the Bank evaluates among other factors, evidence of a deterioration in the financial health of the investee, 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.

*Impairment of financing assets*

Financing assets are evaluated for impairment on a basis described in accounting policy, refer to note 2.bb. 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, on the basis of the Group's grading process that 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.

**dd. 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.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**ee. Customers' current accounts**

Balances in current (non-investment) accounts are recognised when received by the Bank. The transactions are measured at the cash equivalent amount received by the Bank at the time of 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.

**ff. Employees' 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 as 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*

Pension and other benefits for Bahraini employees are covered by 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 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 benefits scheme" and any increase or decrease in the benefit obligation is recognised in the Income Statement.

The Bank also operates a voluntary employee 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 the Board of trustees who are employees of the Bank. The scheme is in the nature of 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 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.

**gg. 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.

**hh. Repossessed assets**

In certain circumstances, property is repossessed following the foreclosure on financing facilities that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'.

**ii. 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 percent of the paid up share capital.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****jj. URIA protection scheme**

Investment accounts held within the Bank's Bahrain operations are covered by the regulation protecting URIA issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations governing the establishment of a URIA Protection Scheme and a URIA Protection Board.

**3 CASH AND BALANCES WITH BANKS AND CENTRAL BANK**

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Cash on hand	<b>13,042</b>	12,829
Balances with CBB, excluding mandatory reserve deposits	<b>3,654</b>	3,877
Balances with banks and other financial institutions	<b>17,765</b>	12,737
	<b>34,461</b>	29,443
Mandatory reserve with CBB	<b>35,205</b>	33,765
	<b>69,666</b>	63,208

The mandatory reserve with CBB is not available for use in the day-to-day operations.

Balances with banks and other financial institutions includes an amount of BD 2,512 thousand which is not available for use in the day-to-day operations.

**4 PLACEMENTS WITH FINANCIAL INSTITUTIONS**

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Commodity Murabaha	<b>53,519</b>	43,511
Deferred profits	<b>(5)</b>	(27)
	<b>53,514</b>	43,484
Wakala	<b>27,331</b>	20,321
	<b>80,845</b>	63,805

**5 FINANCING ASSETS**

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Murabaha (note 5.1)	<b>455,501</b>	396,917
Musharaka (note 5.2)	<b>106,321</b>	109,539
	<b>561,822</b>	506,456

**5.1 Murabaha**

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Tasheel	<b>206,855</b>	225,868
Tawarooq	<b>195,474</b>	136,348
Altamweel Almaren	<b>64,912</b>	48,174
Letters of credit refinance	<b>27,229</b>	29,198
Motor vehicles Murabaha	<b>9,625</b>	13,058
Credit cards	<b>17,992</b>	15,894
Others	<b>58</b>	70
	<b>522,145</b>	468,610
Qard fund	<b>71</b>	65
<b>Gross receivables</b>	<b>522,216</b>	468,675
Deferred profits	<b>(52,695)</b>	(45,781)
Provision for impairment	<b>(14,020)</b>	(25,977)
	<b>455,501</b>	396,917

31 December 2017

**5 FINANCING ASSETS (continued)****5.1 Murabaha (continued)**

Non-performing Murabaha financing outstanding as of 31 December 2017 amounted to BD 34,436 thousand (2016: BD 30,951 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

The composition of the Murabaha financing portfolio net of deferred profit and before provision for impairment by sector is as follows:

	2017 BD'000	2016 BD'000
Commercial	95,128	73,780
Financial institutions	32,693	16,214
Others including retail	341,700	332,900
	<u>469,521</u>	<u>422,894</u>

The Group exposures of Murabaha financing portfolio is concentrated in Middle East.

**5.2 Musharaka**

	2017 BD'000	2016 BD'000
Musharaka in real estate	107,468	110,263
Provision for impairment	(1,147)	(724)
	<u>106,321</u>	<u>109,539</u>

Non-performing Musharaka financing outstanding as of 31 December 2017 amounted to BD 3,678 thousand (2016: BD 4,731 thousand).

**6 INVESTMENT SECURITIES**

	2017 BD'000	2016 BD'000
<b>i) Debt type instruments</b>		
<i>Quoted Sukuk - carried at amortised cost *</i>		
Balance at beginning of the year	61,626	20,486
Acquisitions	70,043	41,254
Disposals and redemptions	(2,374)	(114)
<b>Balance at the end of the year</b>	<u>129,295</u>	<u>61,626</u>
<i>Unquoted Sukuk - carried at amortised cost</i>		
Balance at beginning of the year	60,763	80,295
Acquisitions	49,503	10,427
Disposals and redemptions	(223)	(29,959)
Foreign currency translation changes	49	-
	<u>110,092</u>	<u>60,763</u>
Provision for impairment	(11,481)	(9,106)
<b>Balance at the end of the year</b>	<u>98,611</u>	<u>51,657</u>
<b>ii) Equity type instruments</b>		
<i>Quoted shares - at fair value through equity</i>		
Balance at beginning of the year	2,392	2,392
Provision for impairment	(1,704)	(1,704)
Disposals	(688)	-
<b>Balance at the end of the year</b>	<u>-</u>	<u>688</u>
<i>Unquoted shares - at cost less impairment</i>		
Balance at beginning of the year	17,592	24,963
Provision for impairment	(1,267)	(7,371)
<b>Balance at the end of the year</b>	<u>16,325</u>	<u>17,592</u>
<i>Unquoted managed funds - at cost less impairment</i>		
Balance at beginning of the year	14,168	14,444
Foreign currency translation changes	-	(36)
Write off	-	(240)
<b>Balance at the end of the year</b>	<u>14,168</u>	<u>14,168</u>
<b>Total net investment securities</b>	<u>258,399</u>	<u>145,731</u>

\* Includes sukuk of BD 25,057 thousand pledged against medium term borrowings of BD 63,488 thousand.



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**7 INVESTMENT IN ASSOCIATES**

	<b>2017</b>	2016
	<b>BD'000</b>	BD'000
At 1 January	26,487	28,116
Share of results of associates, net	(1,103)	(437)
Share of changes in investee's equity	17	(92)
Disposals	(1,431)	-
Foreign currency translation changes	89	-
Provision for impairment	(320)	(1,100)
<b>At 31 December</b>	<b>23,739</b>	<b>26,487</b>

Summarised financial information of associates that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	<b>2017</b>	2016
	<b>BD'000</b>	BD'000
Total assets	200,373	209,079
Total liabilities	80,925	79,670
Total revenues	5,086	5,925
Total net loss	(810)	(856)

Investment in associates comprise:

<i>Name of associate</i>	<i>Ownership %</i>	<i>Country of incorporation</i>	<i>Nature of business</i>
Takaful International Company B.S.C.*	22.75%	Bahrain	Takaful International Company B.S.C. was incorporated in 1989, and carries out Takaful and Retakaful activities in accordance with the teachings of Islamic Shari'a under a license issued by the Central bank of Bahrain, the regulator.  The Group has disposed off its shares in this associate during 2017.
Liquidity Management Centre B.S.C. (c)	25.00%	Bahrain	Liquidity Management Centre B.S.C. (c) was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that allow Islamic financial services institutions to effectively manage their assets and liabilities.
Arabian C Real Estate Company	19.00%	Kuwait	Arabian C Real Estate Company is a Kuwaiti Shareholding Company incorporated in accordance with the Kuwaiti Commercial Companies law. The company's activity focuses on real estate development and the overall management of a variety of strategic investments in the real estate and infrastructure sectors in GCC/MENA region.
Al Dur Energy Investment Company	29.41%	Bahrain	Al Dur Energy Investment Company is an exempt company with limited liability incorporated in the Cayman Islands on 10 June 2009 and operates under registration number 227032. The company operates in the Kingdom of Bahrain with the sole purpose of holding a 15% indirect interest in a power and water plant project company, Al Dur Power and Water Company B.S.C.(c), in the Kingdom of Bahrain.



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## 8 IJARAH MUNTAHIA BITTAMLEEK

	2017				2016			
	Properties BD'000	Aviation related assets BD'000	Others BD'000	Total BD'000	Properties BD'000	Aviation related assets BD'000	Others BD'000	Total BD'000
<b>Cost:</b>								
At 1 January	178,374	7,540	2,503	188,417	147,165	7,540	3,253	157,958
Additions	36,238	-	-	36,238	47,648	-	-	47,648
Settlements / adjustments	(10,549)	-	(2,503)	(13,052)	(16,439)	-	(750)	(17,189)
<b>At 31 December</b>	<b>204,063</b>	<b>7,540</b>	<b>-</b>	<b>211,603</b>	<b>178,374</b>	<b>7,540</b>	<b>2,503</b>	<b>188,417</b>
<b>Accumulated depreciation:</b>								
At 1 January	33,936	226	2,503	36,665	35,087	7,540	1,393	44,020
Charge for the year	17,014	887	-	17,901	10,495	-	1,110	11,605
Settlements / adjustments	(4,857)	-	(2,503)	(7,360)	(11,646)	(7,314)	-	(18,960)
<b>At 31 December</b>	<b>46,093</b>	<b>1,113</b>	<b>-</b>	<b>47,206</b>	<b>33,936</b>	<b>226</b>	<b>2,503</b>	<b>36,665</b>
<b>Net book value:</b>								
<b>As at 31 December</b>	<b>157,970</b>	<b>6,427</b>	<b>-</b>	<b>164,397</b>	<b>144,438</b>	<b>7,314</b>	<b>-</b>	<b>151,752</b>

## 9 IJARAH RENTAL RECEIVABLES

	2017 BD'000	2016 BD'000
Gross Ijarah rental receivables	27,658	21,888
Provision for impairment	(13,175)	(13,270)
	<b>14,483</b>	<b>8,618</b>

Non-performing Ijarah rental receivables as of 31 December 2017 is BD 16,814 thousand (2016: BD 17,630 thousand).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 10 PROPERTY AND EQUIPMENT

	2017						
	<i>Lands BD'000</i>	<i>Buildings BD'000</i>	<i>Fixture and fitting BD'000</i>	<i>Equipment BD'000</i>	<i>Furniture BD'000</i>	<i>Work in progress BD'000</i>	<i>Total BD'000</i>
<b>Cost:</b>							
At 1 January	5,521	7,651	3,814	10,367	883	558	28,794
Additions	-	-	23	1,152	7	11	1,193
<b>At 31 December</b>	<b>5,521</b>	<b>7,651</b>	<b>3,837</b>	<b>11,519</b>	<b>890</b>	<b>569</b>	<b>29,987</b>
<b>Depreciation:</b>							
At 1 January	-	1,962	3,144	8,298	743	-	14,147
Charge for the year	-	261	260	989	60	-	1,570
<b>At 31 December</b>	<b>-</b>	<b>2,223</b>	<b>3,404</b>	<b>9,287</b>	<b>803</b>	<b>-</b>	<b>15,717</b>
<b>Net Book Value</b>	<b>5,521</b>	<b>5,428</b>	<b>433</b>	<b>2,232</b>	<b>87</b>	<b>569</b>	<b>14,270</b>
	2016						
	<i>Lands BD'000</i>	<i>Buildings BD'000</i>	<i>Fixture and fitting BD'000</i>	<i>Equipment BD'000</i>	<i>Furniture BD'000</i>	<i>Work in progress BD'000</i>	<i>Total BD'000</i>
<b>Cost:</b>							
At 1 January	5,521	7,651	3,695	9,782	869	516	28,034
Additions	-	-	119	585	14	42	760
<b>At 31 December</b>	<b>5,521</b>	<b>7,651</b>	<b>3,814</b>	<b>10,367</b>	<b>883</b>	<b>558</b>	<b>28,794</b>
<b>Depreciation:</b>							
At 1 January	-	1,699	2,853	7,393	683	-	12,628
Charge for the year	-	263	291	905	60	-	1,519
<b>At 31 December</b>	<b>-</b>	<b>1,962</b>	<b>3,144</b>	<b>8,298</b>	<b>743</b>	<b>-</b>	<b>14,147</b>
<b>Net Book Value</b>	<b>5,521</b>	<b>5,689</b>	<b>670</b>	<b>2,069</b>	<b>140</b>	<b>558</b>	<b>14,647</b>

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**11 INVESTMENT IN REAL ESTATE**

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Land	27,796	27,221
Buildings	2,035	2,289
	<b>29,831</b>	<b>29,510</b>
	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Movement on investment in real estate:		
At 1 January	29,510	45,045
Capitalized expenditure	28	-
Disposal	(372)	(13,728)
Fair value changes	665	(1,807)
<b>At 31 December</b>	<b>29,831</b>	<b>29,510</b>

Investment in real estate comprises properties located in the Kingdom of Bahrain and the United Arab Emirates.

Investment in real estate is stated at fair value, which has been determined based on valuations performed by independent third party property valuers who have the qualification and experience of valuing similar properties in the same location. Fair value of investments in real estate is classified as category 2 of fair value hierarchy.

**12 OTHER ASSETS**

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Reposessed assets	5,689	6,916
Receivables	2,475	2,228
Staff advances	1,608	1,665
Prepaid expenses	1,138	945
Other	285	39
	<b>11,195</b>	<b>11,793</b>

**13 BORROWINGS FROM FINANCIAL INSTITUTIONS**

During the year, the Group obtained three medium term murabaha facilities of BD 63,488 thousand secured by pledge over sukuk of BD 25,057 thousand maturing on 20 February 2018, 22 March 2018 and 29 March 2018, and a syndicated financing facility of BD 38,088 thousand on a clean basis maturing on 28 September 2018. The average rate of borrowings is 3.12%.

**14 OTHER LIABILITIES**

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Managers' cheques	1,833	4,748
Payable to vendors	708	2,837
Accrued expenses	3,618	2,990
Life insurance (Takaful) fees payable	999	1,568
Dividends payable	1,000	776
Zakah and charity fund	259	222
Other	3,090	1,738
	<b>11,507</b>	<b>14,879</b>

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**15 EQUITY OF INVESTMENT ACCOUNTHOLDERS**

The Group comingles the Investment account holders' (IAH) funds with the owners' equity. In line with its policy, the Group utilizes the funds from IAH to finance assets.

**15.1 Equity of investment accountholders balances**

	<i>2017</i>	<i>2016</i>
	<i>BD'000</i>	<i>BD'000</i>
<b>Type of Equity of Investment Accountholders</b>		
Customer investment accounts		
Balances on demand	303,345	313,612
Contractual basis	490,411	340,704
	<u>793,756</u>	<u>654,316</u>

**15.2 Assets in which IAH funds were invested**

Assets in which IAH funds were invested as at 31 December are as follows:

	<i>2017</i>	<i>2016</i>
	<i>BD'000</i>	<i>BD'000</i>
<b>Asset</b>		
Cash and balances with banks and Central Bank	30,334	31,361
Gross financing assets	433,168	374,770
Gross Ijarah Muntahia Bittamleek and rental receivables	131,545	126,217
Collective impairment	(3,778)	(3,885)
Investment securities	189,478	113,750
Investment in real estate	5,329	3,196
Other assets	7,680	8,907
	<u>793,756</u>	<u>654,316</u>

The Bank temporarily allocates non-performing assets (past due greater than 90 days) from IAH to the equity shareholders and charges the specific impairment provisions to the owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity. The Bank takes remedial action on these non-performing assets and once these assets become performing, the assets and related income are allocated between the IAH and owners' equity.

The Bank charges IAH with their share of collective impairment provisions on financing facilities not past due and past due less than 90 days.

During the year, the Bank did not charge any administration expenses to investment accounts.

**15 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)****15.3 Profit distribution by account type**

Following is the average percentage of profit allocation between the owner's accounts applied during the year for each type of IAH account as agreed contractually with the customers:

Account type	2017			2016		
	Utilization	Mudhareb Share	Profit to IAH	Utilization	Mudhareb Share	Profit to IAH
Tejoori	90%	96.86%	2.90%	90%	96.95%	2.69%
Savings	90%	96.93%	2.83%	90%	96.84%	2.80%
Vevo	90%	97.13%	2.63%	90%	97.12%	2.53%
Iqra	100%	67.83%	31.08%	100%	65.69%	32.02%
Time deposits	100%	58.11%	40.79%	100%	62.74%	35.03%

During the year, the Group did not increase its percentage of profits as mudarib. Further, the Group did not receive any incentive from profits of investment account holders.

The Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudarba contract.

Funds from IAH are invested in assets on a priority basis.

**15.4 Equity of Investment Accountholders Reserves**

	2017	Movement	2016
	BD'000	BD'000	BD'000
Profit equalisation reserve	1,245	-	1,245
Investment risk reserve	1,177	420	757

**15.5 Return on equity of investment accountholders**

	2017	2016
	BD'000	BD'000
Gross return to equity of investment accountholders	36,430	30,081
Group's share as a Mudarib	(24,646)	(22,170)
Allocation to profit equalization reserve	-	(250)
Allocation to investment risk reserve	(420)	(530)
Net return on equity of investment accountholders	11,364	7,131

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**16 OWNERS' EQUITY**

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
(i) Share capital		
a) <i>Authorised</i>		
2,000,000,000 shares (2016: 2,000,000,000 shares) of BD 0.100 each	<u>200,000</u>	<u>200,000</u>
b) <i>Issued and fully paid up</i>		
1,013,389,130 shares (2016: 1,013,389,130 shares) of BD 0.100 each	<u>101,339</u>	<u>101,339</u>
(ii) Treasury Shares	<b>2017</b>	<b>2016</b>
	<b>Number of</b>	<b>BD'000</b>
	<b>Shares</b>	<b>BD'000</b>
At 31 December	<u>5,576,532</u>	<u>864</u>

	<b>2017</b>
	<b>BD'000</b>
Cost of treasury shares	864
Market value of treasury shares	781

The treasury shares as a percentage of total shares in issue is 0.55%

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

**(iii) Reserves***Statutory reserve*

A transfer has been made of BD 1,014 thousand (2016: 842 thousand) representing 10% of the profit for the year BD 10,141 thousand (2016: 8,420 thousand). The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of CBB.

*General reserve*

The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the net income for the year after appropriating statutory reserve.

*Real estate fair value reserve*

This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the income statement upon sale of the investment in real estate.

*Investment fair value reserve*

This represents the net unrealised gains or losses on equity investments relating to self financed investments.

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**16 OWNERS' EQUITY (continued)**

(iv) Additional information on shareholding pattern

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

Names	Nationality	2017		2016	
		Number of shares	% holding	Number of shares	% holding
National Bank of Bahrain	Bahraini	294,482,159	29.06%	294,482,159	29.06%
Social Insurance Organisation	Bahraini	147,242,463	14.53%	147,242,463	14.53%
Social Insurance Organisation - Military Pension Fund	Bahraini	147,127,630	14.52%	147,242,464	14.53%
Islamic Development Bank	Saudi	145,982,989	14.41%	146,117,221	14.42%
General Council of Kuwaiti Awqaf	Kuwaiti	72,641,786	7.17%	72,729,830	7.18%

2) The Group has only one class of shares and the holders of these shares have equal voting rights.

3) Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

	2017			2016		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	146,142,722	3,232	14.41%	145,893,657	3,266	14.39%
1% up to less than 5%	59,769,380	3	5.90%	59,769,380	3	5.90%
5% up to less than 10%	72,641,786	1	7.18%	72,641,786	1	7.18%
10% up to less than 50%	734,835,242	4	72.51%	735,084,307	4	72.54%
	<b>1,013,389,130</b>	<b>3,240</b>	<b>100.00%</b>	<b>1,013,389,130</b>	<b>3,274</b>	<b>100.00%</b>

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

**Categories:**

	2017		2016	
	No. of shares	No. of directors	No. of shares	No. of directors
Less than 1%	464,320	4	414,320	3

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above):

	2017		2016	
	No. of shares	Percentage of Shareholding	No. of shares	Percentage of Shareholding
Directors	464,320	0.046%	414,320	0.041%
Shari'a supervisory members	181,731	0.018%	180,823	0.018%
Senior management	777,167	0.077%	418,496	0.041%
	<b>1,423,218</b>	<b>0.141%</b>	<b>1,013,639</b>	<b>0.100%</b>

v) Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 265 thousand in 2017 (2016: BD 137 thousand) and cash dividend of 5% amounting to BD 5,024 thousand (2016: cash dividend of 5% amounting to BD 5,051 thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

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**17 COMMITMENTS AND CONTINGENT LIABILITIES*****Credit related commitments***

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Letters of credit and acceptances	<b>5,470</b>	6,182
Guarantees	<b>74,159</b>	43,966
Credit cards	<b>30,508</b>	26,103
Altamweel Almaren	<b>19,033</b>	20,180
Operating lease commitments *	<b>223</b>	356
	<b>129,393</b>	<b>96,787</b>

\* The Group has entered into commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Within one year	<b>170</b>	3
After one year but not more than five years	<b>53</b>	353
	<b>223</b>	<b>356</b>

**18 CAPITAL ADEQUACY**

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue Sukuk etc. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital structure primarily consists of its paid-up capital, including share premium and reserves. From a regulatory perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities and future sources and uses of funds.

The Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which came into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasizes common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements.



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**18 CAPITAL ADEQUACY (continued)**

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
CET 1 Capital before regulatory adjustments	<b>116,125</b>	111,111
Less: regulatory adjustments	-	-
<b>CET 1 Capital after regulatory adjustments</b>	<b>116,125</b>	<b>111,111</b>
T 2 Capital adjustments	<b>13,269</b>	11,961
<b>Regulatory Capital</b>	<b>129,394</b>	<b>123,072</b>

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. The capital requirements for these risks are as follows:

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Risk weighted exposure:</b>		
Total Credit Risk Weighted Assets	<b>569,926</b>	527,820
Total Market Risk Weighted Assets	<b>10,702</b>	12,226
Total Operational Risk Weighted Assets	<b>86,085</b>	66,722
<b>Total Regulatory Risk Weighted Assets</b>	<b>666,713</b>	<b>606,768</b>
Investment risk reserve (30% only)	<b>353</b>	227
Equalization reserve (30% only)	<b>374</b>	374
<b>Total Adjusted Risk Weighted Exposures</b>	<b>665,986</b>	<b>606,167</b>
<b>Capital Adequacy Ratio</b>	<b>19.43%</b>	20.30%
<b>Tier 1 Capital Adequacy Ratio</b>	<b>17.44%</b>	18.33%
Minimum requirement	<b>12.5%</b>	12.5%

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**19 INCOME FROM FINANCING**

	<i>2017</i> <i>BD'000</i>	<i>2016</i> <i>BD'000</i>
Income from Murabaha financing	23,483	20,143
Income from placements with financial institutions	1,093	341
Income from Musharaka financing	6,580	6,300
Income from Ijarah Muntahia Bittamleek	9,351	8,097
	<u>40,507</u>	<u>34,881</u>

**20 INCOME FROM INVESTMENT SECURITIES**

	<i>2017</i> <i>BD'000</i>	<i>2016</i> <i>BD'000</i>
Dividend income	513	739
	<u>513</u>	<u>739</u>

**21 INCOME FROM INVESTMENT IN REAL ESTATE**

	<i>2017</i> <i>BD'000</i>	<i>2016</i> <i>BD'000</i>
Loss on sale	(39)	(843)
Rental income	371	362
Impairment charge	(119)	(82)
	<u>213</u>	<u>(563)</u>

**22 OTHER INCOME**

	<i>2017</i> <i>BD'000</i>	<i>2016</i> <i>BD'000</i>
Recoveries from previously written off financing	1,883	3,499
Foreign exchange gain / (loss)	489	(1,001)
Others	368	2,046
	<u>2,740</u>	<u>4,544</u>

**23 OTHER OPERATING EXPENSES**

	<i>2017</i> <i>BD'000</i>	<i>2016</i> <i>BD'000</i>
Marketing and advertisement expenses	2,811	2,670
Information technology related expenses	1,602	1,312
Card Centre expenses	1,951	1,203
Premises and equipment expenses	1,150	1,233
Communication expenses	920	952
Professional services	1,254	933
Board remunerations	500	300
Board of directors sitting fees	141	178
Shari'a committee fees & expenses	111	85
Others	1,947	1,954
	<u>12,387</u>	<u>10,820</u>

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**24 IMPAIRMENT PROVISIONS****24.1 Impairment provisions on financing**

	Specific impairment		Collective impairment		Total	
	2017 BD'000	2016 BD'000	2017 BD'000	2016 BD'000	2017 BD'000	2016 BD'000
At 1 January	27,537	29,145	12,434	11,326	39,971	40,471
Charge for the year	8,616	3,924	-	1,225	8,616	5,149
Recoveries and write backs	(5,552)	(3,058)	(527)	-	(6,079)	(3,058)
	3,064	866	(527)	1,225	2,537	2,091
Amounts written off against provision	(13,206)	(2,474)	(960)	(117)	(14,166)	(2,591)
<b>At 31 December</b>	<b>17,395</b>	<b>27,537</b>	<b>10,947</b>	<b>12,434</b>	<b>28,342</b>	<b>39,971</b>

The above impairment provision relates to the following:

	2017 BD'000	2016 BD'000
Murabaha financing	14,020	25,977
Musharaka financing	1,147	724
Ijarah Muntahia Bittamleek	13,175	13,270
	<b>28,342</b>	<b>39,971</b>

**24.2 Impairment provisions on investments**

	2017 BD'000	2016 BD'000
At 1 January	20,689	14,998
Charge for the year *	3,913	7,641
Recoveries and write backs	(253)	-
	3,660	7,641
Amounts written off against provision	(1,450)	(1,907)
Foreign currency translation changes	50	(43)
<b>At 31 December</b>	<b>22,949</b>	<b>20,689</b>

\* Impairment charge includes BD 320 thousand (2016: BD 1,100 thousand) impairment charge on investment in associate.

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2017 amounts to BD 180,740 thousand (31 December 2016: BD 97,468 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

The Group has taken all the specific and investment provisions allocated to the non performing assets against its own capital. Hence the equity of investment accountholders was not charged for any specific and investment provision for impairment.

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**25 ZAKAH**

The total Zakah payable as of 31 December 2017 amounted to BD 1,875 thousand (2016: BD 1,627 thousand) of which the Bank has BD 265 thousand Zakah payable (2016: BD 137 thousand ) based on the statutory reserve, general reserve and retained earning as at 1 January 2017. The Zakah balance amounting to BD 1,610 thousand or 1.6 fils per share (2016: BD 1,490 thousand or 1.5 fils per share) is due and payable by the shareholders.

**26 EARNINGS PER SHARE**

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

	2017	2016
Profit for the year in BD'000	<u>10,141</u>	<u>8,420</u>
Weighted average number of shares	<u>1,000,414</u>	<u>1,001,030</u>
Basic and diluted earnings per share (fils)	<u>10.14</u>	<u>8.41</u>

Basic and diluted earnings per share are the same since the Group has not issued any instruments that would have a dilutive effect.

**27 RELATED PARTY TRANSACTIONS**

Related parties comprise of major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial

The significant balances and transactions with related parties at 31 December were as follows:

	2017				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Assets</b>					
Financing assets	-	-	1,688	84	1,772
Investment in associates	-	23,739	-	-	23,739
Other assets	-	-	-	1,060	1,060
<b>Liabilities and Equity of investment accountholders</b>					
Borrowings from financial institutions	38,991	-	-	-	38,991
Customers' current accounts	-	130	662	280	1,072
Other liabilities	-	-	517	-	517
Equity of investment accountholders	47,092	-	7,819	1,499	56,410
	2017				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Income</b>					
Income from financing	-	-	110	-	110
Share of results of associates, net	-	(1,103)	-	-	(1,103)
<b>Return on equity of investment accountholders</b>	(1,469)	-	(139)	-	(1,608)
<b>Expense on borrowings</b>	(750)	-	-	(3)	(753)
<b>Expenses</b>					
Other expenses	-	-	(753)	-	(753)
Staff costs	-	-	(39)	(1,439)	(1,478)

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## 27 RELATED PARTY TRANSACTIONS (continued)

	2016				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Assets</b>					
Financing assets	-	-	1,615	-	1,615
Investment in associates	-	26,487	-	-	26,487
Other assets	-	-	-	402	402
<b>Liabilities and Equity of investment accountholders</b>					
Borrowings from financial institutions	-	-	-	-	-
Customers' current accounts	-	1,719	431	152	2,302
Other liabilities	-	1,568	360	-	1,928
Equity of investment accountholders	65,656	602	1,218	1,142	68,618
<b>2016</b>					
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Income</b>					
Income from financing	-	-	86	-	86
Share of results of associates, net	-	(437)	-	-	(437)
Return on equity of investment accountholders	(658)	(5)	(15)	(35)	(713)
Expense on placements from financial institutions	(304)	-	-	-	(304)
<b>Expenses</b>					
Other expenses	-	-	(563)	-	(563)
Staff costs	-	-	-	(1,422)	(1,422)

**Compensation of the key management personnel is as follows:**

Key management personnel includes staff at the grade of assistant general manager or above.

	2017 BD'000	2016 BD'000
Short term employee benefits	1,178	1,226
Other long term benefits	261	196
	<b>1,439</b>	<b>1,422</b>

**Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. These risks and the processes to mitigate these risks have not significantly changed from the previous year.

The Group is exposed mainly to credit, liquidity, market and operational risks.

**Risk management objectives**

The risk management philosophy of the Group is to identify, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining its risk exposure within self-imposed parameters.

The Group has defined its risk appetite within the parameters of its risk strategy. The Group reviews and realigns its risk appetite as per the evolving business plan of the Group with changing economic and market scenarios. The Group also assesses its tolerance for specific risk categories and its strategy to manage these risks.

Risk appetite of the Group is articulated in terms of the following dimensions:

1. Adequate capital level;
2. Stable profitability and growth;
3. Sufficient liquidity; and
4. Sound reputation.

**Structure and Organization of the Risk Management Function**

Risk Management Structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of the risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

- a. Establishing overall policies and procedures; and
- b. Delegating authority to the Executive Committee, Credit and Investment Committee, Chief Executive Officer and further delegation to the management to approve and review.

Executive Committee (EC) comprises of four designated members of the Board of Directors. The Executive Committee is delegated authority by the Board to manage the ongoing activities of the Group. Decisions are taken by the Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): As delegated by the Board of Directors and as per approved terms of reference, the Committee has been delegated with authorities and responsibilities including, approving extension or renewal of credit facilities, granting temporary excesses to customers with credit facilities approved by the Board, approving early repayments of facilities, monitoring the performance and quality of the Group's credit portfolio and overseeing the administration and effectiveness of and compliance with, the Group's credit policies through the review of such processes, reports and other information as it deems appropriate.

**Risk Measurement and Reporting Systems**

Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Risk Management Department (RMD) to the Credit Committee. The limits are reviewed and revised at least annually (or earlier if required).

**28 RISK MANAGEMENT (continued)****a) Credit Risk**

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss.

**Credit Risk Mitigation**

Credit risk mitigation refers to the use of a number of techniques, such as obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is to be compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

Notwithstanding the above, when facilities are extended to family owned limited liability entities, the following is normally obtained;

- a. Collateral security, fully covering the exposure; or
- b. Joint and several guarantees of shareholders directly involved in managing the entity as well as of shareholders owing at least 80% of the shares of the entity.

Third party guarantees in support of credit facilities are accepted only after review and approval of appropriate guarantor lines.

**(i) Gross maximum exposure to credit risk**

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The CIC periodically reviews and approves the value of securities. It has also approved a list of acceptable securities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure, without taking account of any collateral held or other credit enhancements.

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Balances with banks and Central Bank	<b>56,624</b>	50,379
Placements with financial institutions	<b>80,845</b>	63,805
Financing assets	<b>561,822</b>	506,456
Ijarah Muntahia Bittamleek and Rental Receivables	<b>178,880</b>	160,370
Investment debt securities	<b>227,906</b>	113,283
	<b>1,106,077</b>	894,293
Letters of credit, guarantees and acceptances	<b>79,629</b>	50,148

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**28 RISK MANAGEMENT (continued)****a) Credit Risk (continued)****(ii) Risk concentrations of the maximum exposure to credit risk**

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
<b>Geographical region</b>						
Middle East	1,194,057	1,010,463	1,091,639	924,205	129,393	96,787
North America	10,473	5,801	229	83	-	-
Europe	24,117	5,743	13,628	579	-	-
Other	-	-	881	849	-	-
	<b>1,228,647</b>	<b>1,022,007</b>	<b>1,106,377</b>	<b>925,716</b>	<b>129,393</b>	<b>96,787</b>
<b>Industry sector</b>						
Trading and manufacturing	105,018	70,899	19,022	42,443	20,507	23,278
Aviation	-	-	53,029	1,977	-	820
Real Estate	211,603	189,828	43,352	22,266	45,068	9,904
Banks and financial institutions	171,187	135,883	216,833	131,837	3,205	916
Personal / Consumer	391,662	380,532	472,366	441,795	33,085	27,082
Government Organization	251,777	132,360	165,358	143,222	21,081	500
Others	97,400	112,705	136,417	142,176	6,447	34,287
	<b>1,228,647</b>	<b>1,022,007</b>	<b>1,106,377</b>	<b>925,716</b>	<b>129,393</b>	<b>96,787</b>

**(iii) Credit quality per class of financial assets**

The credit quality of financial assets is managed by the Group using internal classification. The table below shows the credit quality by class of asset, based on the Group's credit rating system. Amounts reported are gross of any collective provision for impairment.

	31 December 2017					
	Balances with banks and Central Bank	Placements with financial institutions	Financing assets	Ijarah Muntahia Bittamleek and rental receivables	Investment securities (Sukuk)	Total
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Past due and impaired	-	-	38,112	16,814	12,550	67,476
Specific impairment	-	-	(6,118)	(11,277)	(11,481)	(28,876)
Carrying value	-	-	31,994	5,537	1,069	38,600
Past due but not impaired:						
up to 30 days	-	-	62,977	13,181	-	76,158
31 to 60 Days	-	-	8,585	1,050	-	9,635
61 to 90 days	-	-	7,468	711	-	8,179
Carrying value	-	-	79,030	14,942	-	93,972
Neither past due nor impaired	17,765	77,145	452,238	135,120	27,001	709,269
Carrying value	17,765	77,145	452,238	135,120	27,001	709,269
Sovereign	38,859	3,700	7,609	25,179	199,836	275,183
Carrying value	38,859	3,700	7,609	25,179	199,836	275,183
Collective impairment	-	-	(9,049)	(1,898)	-	(10,947)
	<b>56,624</b>	<b>80,845</b>	<b>561,822</b>	<b>178,880</b>	<b>227,906</b>	<b>1,106,077</b>



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## 28 RISK MANAGEMENT (continued)

## a) Credit Risk (continued)

## (iii) Credit quality per class of financial assets (continued)

	31 December 2016					
	<i>Balances with banks and Central Bank BD'000</i>	<i>Placements with financial institutions BD'000</i>	<i>Financing assets BD'000</i>	<i>Ijarah Muntahia Bittamleek and rental receivables BD'000</i>	<i>Investment securities (Sukuk) BD'000</i>	<i>Total BD'000</i>
Past due and impaired	-	-	52,251	28,608	12,560	93,419
Specific impairment	-	-	(16,560)	(10,977)	(9,106)	(36,643)
Carrying value	-	-	35,691	17,631	3,454	56,776
Past due but not impaired:						
Less than 30 days	-	-	37,962	16,005	-	53,967
31 to 60 Days	-	-	12,041	1,345	-	13,386
61 to 90 days	-	-	9,460	432	-	9,892
Carrying value	-	-	59,463	17,782	-	77,245
Neither past due nor impaired	12,737	63,805	420,918	119,691	27,682	644,833
Carrying value	12,737	63,805	420,918	119,691	27,682	644,833
Sovereign	37,642	-	525	7,559	82,147	127,873
Carrying value	37,642	-	525	7,559	82,147	127,873
Collective impairment	-	-	(10,141)	(2,293)	-	(12,434)
	50,379	63,805	506,456	160,370	113,283	894,293

Restructured facilities during the year amounted to BD 24,586 thousand (2016: BD 20,580 thousand).

## b) Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and quoted investments. The Group has leveraged part of its sukuk portfolio by obtaining medium term financing maturing in one year.

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**28 RISK MANAGEMENT (continued)****b) Liquidity Risk (continued)****Maturity profile of Group's assets and liabilities**

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period from the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2017 was as follows:

	Up to	1 to 3	3 to 6	6 months	1 to 3	Over	No fixed	Total
	1 month	months	months	to 1 year	years	3 years	maturity	
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
<b>ASSETS</b>								
Cash and balances with the banks and Central Bank	34,461	-	-	-	-	-	35,205	69,666
Placements with financial institutions	80,845	-	-	-	-	-	-	80,845
Financing assets	15,573	27,835	28,791	63,116	59,168	367,339	-	561,822
Ijarah Muntahia Bittamleek and Rental Receivables	3	8,309	7	56	3,828	166,677	-	178,880
Investment securities	11,296	56,504	27,603	10,167	34,766	118,063	-	258,399
Investment in associates	-	-	-	-	-	-	23,739	23,739
Investment in real estate	-	-	-	-	-	-	29,831	29,831
Property and equipment	-	-	-	-	-	-	14,270	14,270
Other assets	5	65	397	23	510	10,195	-	11,195
<b>Total assets</b>	<b>142,183</b>	<b>92,713</b>	<b>56,798</b>	<b>73,362</b>	<b>98,272</b>	<b>662,274</b>	<b>103,045</b>	<b>1,228,647</b>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>								
Placements from financial institutions	61,086	6,786	-	-	-	-	-	67,872
Borrowings from financial institutions	-	63,488	-	38,088	-	-	-	101,576
Customers' current accounts	26,333	-	-	-	-	105,333	-	131,666
Other liabilities	11,507	-	-	-	-	-	-	11,507
Equity of investment accountholders	206,961	102,475	146,113	72,960	9,334	255,913	-	793,756
<b>Total liabilities and equity of investment accountholders</b>	<b>305,887</b>	<b>172,749</b>	<b>146,113</b>	<b>111,048</b>	<b>9,334</b>	<b>361,246</b>	<b>-</b>	<b>1,106,377</b>
<b>Liquidity gap</b>	<b>(163,704)</b>	<b>(80,036)</b>	<b>(89,315)</b>	<b>(37,686)</b>	<b>88,938</b>	<b>301,028</b>	<b>103,045</b>	<b>122,270</b>
<b>Cumulative liquidity gap</b>	<b>(163,704)</b>	<b>(243,740)</b>	<b>(333,055)</b>	<b>(370,741)</b>	<b>(281,803)</b>	<b>19,225</b>	<b>122,270</b>	<b>-</b>

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**28 RISK MANAGEMENT (continued)****b) Liquidity risk (continued)**

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2016 was as follows:

ASSETS	Up to	1 to 3	3 to 6	6 months	1 to 3	Over	No fixed	Total
	1 month	months	months	to 1 year	years	3 years	maturity	
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with the banks and Central Bank	29,442	-	-	-	-	-	33,766	63,208
Placements with financial institutions	63,805	-	-	-	-	-	-	63,805
Financing assets	23,480	15,488	23,248	49,452	82,910	311,878	-	506,456
ijarah Muntahia Bittamleek and Rental Receivables	11,542	2,091	21	63	1,506	145,147	-	160,370
Investments securities	97	1,504	3,798	-	38,685	101,647	-	145,731
Investment in associates	-	-	-	-	-	-	26,487	26,487
Investment in real estate	-	-	-	-	-	-	29,510	29,510
Property and equipment	-	-	-	-	-	-	14,647	14,647
Other assets	379	1,665	-	-	3,044	-	6,705	11,793
<b>Total assets</b>	<b>128,745</b>	<b>20,748</b>	<b>27,067</b>	<b>49,515</b>	<b>126,145</b>	<b>558,672</b>	<b>111,115</b>	<b>1,022,007</b>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>								
Placements from financial institutions	84,117	8,337	-	-	-	-	-	92,454
Borrowings from financial institutions	-	-	11,420	-	-	-	-	11,420
Customers' current accounts	132,466	-	-	-	-	-	-	132,466
Other liabilities	14,879	-	-	-	-	-	-	14,879
Equity investment accountholders	433,805	77,119	84,079	50,014	5,003	-	4,296	654,316
<b>Total liabilities and equity of investment accountholders</b>	<b>665,267</b>	<b>85,456</b>	<b>95,499</b>	<b>50,014</b>	<b>5,003</b>	<b>-</b>	<b>4,296</b>	<b>905,535</b>
<b>Liquidity gap</b>	<b>(536,522)</b>	<b>(64,708)</b>	<b>(68,432)</b>	<b>(499)</b>	<b>121,142</b>	<b>558,672</b>	<b>106,819</b>	<b>116,472</b>
<b>Cumulative liquidity gap</b>	<b>(536,522)</b>	<b>(601,230)</b>	<b>(669,662)</b>	<b>(670,161)</b>	<b>(549,019)</b>	<b>9,653</b>	<b>116,472</b>	<b>-</b>

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**28 RISK MANAGEMENT (continued)****c) Market Risk**

The Group has accepted the definition of market risk as defined by CBB as "the risk of losses in on- and off-balancesheet positions arising from movements in market prices.

**(i) Profit rate risk**

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities, and equity of investment accountholders as the repricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

**(ii) Equity price risk**

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

In order to measure the risk of equity on its financial positions, the Group adopts a sensitivity analysis on its quoted equity portfolio for a 10% increase of the portfolio value with all other variables remaining constant. The effect of a similar decrease in equity prices is expected to be equal and opposite to the effect of the increase shown.

Equity price risk variation as of 31 December is as follows:

	<u>Increase in equity price</u> %	<u>Sensitivity of profit or loss</u> BD'000	<u>Sensitivity of equity</u> BD'000
<b>2017</b>			
Kuwait Stock Exchange	-	-	-
	<u>Increase in equity price</u> %	<u>Sensitivity of profit or loss</u> BD'000	<u>Sensitivity of equity</u> BD'000
<b>2016</b>			
Kuwait Stock Exchange	+10	69	-

As at the consolidated statement of financial position date, the Group has unquoted (equities and sukuk) of BD 115 million (31 December 2016: BD 69 million). The impact of changes in the value of these unquoted equities and sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

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**28 RISK MANAGEMENT (continued)****c) Market Risk (continued)****iii) Foreign exchange risk**

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	<i>Equivalent Long (short)</i>	<i>Equivalent Long (short)</i>
	<u>2017</u>	<u>2016</u>
	<i>BD '000</i>	<i>BD '000</i>
<b>Currency</b>		
Pound Sterling	<b>(1,020)</b>	(1,016)
Euro	<b>(985)</b>	(1,051)
CAD	<b>(4)</b>	(3)
JPY	<b>(6)</b>	(3)
Kuwaiti Dinars	<b>(8,659)</b>	(10,131)

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant foreign exchange risk.

Moreover, as the Group does not have significant exposure to other currencies, movement of the currency exchange rates against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated income statement and owners' equity.

**iv) Commodity risk**

Commodity risk is defined as inherent risk in financial product arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within particular sector and less correlated across sectors.

**d) Operational Risk**

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**29 SEGMENTAL INFORMATION**

For management purposes, the Group is organized into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling investments in local and international markets and investment in properties.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	<i>31 December 2017</i>			
	<i>Corporate</i>	<i>Retail</i>	<i>Investment</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Total net income	10,732	27,170	5,004	42,906
Total expenses	(5,043)	(18,154)	(3,371)	(26,568)
Provision for impairment	(7,399)	529	673	(6,197)
<b>Profit / (loss) for the year</b>	<b>(1,710)</b>	<b>9,545</b>	<b>2,306</b>	<b>10,141</b>
<b>Other information</b>				
Segment assets	330,624	455,535	442,488	1,228,647
Segment liabilities, and equity	450,926	517,873	259,848	1,228,647
	<i>31 December 2016</i>			
	<i>Corporate</i>	<i>Retail</i>	<i>Investment</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Total income	12,928	27,868	876	41,672
Total expenses	(3,791)	(17,140)	(2,589)	(23,520)
Provision for impairment	251	(2,342)	(7,641)	(9,732)
<b>Profit / (loss) for the year</b>	<b>9,388</b>	<b>8,386</b>	<b>(9,354)</b>	<b>8,420</b>
<b>Other information</b>				
Segment assets	256,996	452,746	312,265	1,022,007
Segment liabilities, and equity	284,279	512,642	225,086	1,022,007

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

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**30 FINANCIAL INSTRUMENTS*****Fair value hierarchy***

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

Fair values of quoted securities / Sukuk are derived from quoted market prices in active markets, if available. In case of financing assets 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 and managed funds carried at cost of BD 30,493 thousand (2016: BD 31,760 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.

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

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December:

	<i>Level 1</i> <i>BD'000</i>	<i>Level 2</i> <i>BD'000</i>	<i>Level 3</i> <i>BD'000</i>	<i>Total</i> <i>BD'000</i>
<b>2017</b>				
<b>Investments carried at fair value through equity</b>				
Quoted equity securities	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>2016</b>				
<b>Investments carried at fair value through equity</b>				
Quoted equity securities	688	-	-	688
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Transfers between Level 1, Level 2 and Level 3**

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3.

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**31 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A**

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various charitable purposes. The movements in these funds is shown in statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

**32 SHARI'A SUPERVISORY BOARD**

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

**33 SOCIAL RESPONSIBILITY**

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

**34 COMPARATIVE FIGURES**

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported profit for the year or total owners' equity.