



# **National Bank of Bahrain BSC**

**Financial Statements - 31 December 2017**



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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

National Bank of Bahrain BSC  
 PO Box 106  
 Manama  
 Kingdom of Bahrain

**Report on the audit of the financial statements**

*Opinion*

We have audited the accompanying financial statements of National Bank of Bahrain BSC (the "Bank"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

*Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Impairment of loans and advances**

*(refer to the use of estimate and management judgement in note 2(d), impairment policy in note 2f(xiv), note 7 and disclosures of credit risk in note 3 of the financial statements)*

Description	How the matter was addressed in our audit
<p>We focused on this area because:</p> <ul style="list-style-type: none"> <li>▪ of the significance of loans and advances (representing 40% of total assets) and the related estimation uncertainty to the financial statements;</li> <li>▪ the Bank makes complex and subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment;</li> <li>▪ large loans that are classified as non-performing are assessed individually by management for specific impairment based on knowledge of each individual borrower; and</li> </ul>	<p>We understood and tested key controls and focused on:</p> <ul style="list-style-type: none"> <li>• the credit rating, monitoring process and assessment of the risk rating;</li> <li>• past due ageing of the Bank's loans;</li> <li>• the identification of impairment events;</li> <li>• the governance controls over the impairment processes, including the continuous re-assessment by management of impairment models;</li> <li>• the transfer of data between underlying source systems and the impairment models that the Bank operates; and</li> <li>• the review and approval process that management has in place for the outputs of the Bank's impairment models.</li> </ul> <p>In addition to testing the key controls, we have also performed the following procedures:</p> <p><i>Specific impairment provision:</i>            Our procedures included the following where specific impairment is calculated for individual loans:</p>



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

- other homogenous loans are grouped together for impairment assessment on a collective basis.
- understanding and evaluating the key impairment triggers used by the Bank for identifying impairment events for the loan and advances portfolio;
- challenging whether all impairment events have been identified;
- for a sample of exposures that were subject to specific impairment assessment and focusing on those with the most significant potential impact on the financial statements:
  - we understood the basis of measuring the specific impairment provision and considered whether key judgements were appropriate given the borrowers' circumstances; and
  - we tested key inputs to the expected cash flows and valuation of collateral held, and challenged management as to whether the valuations were up to date and appropriate adjustments were taken on collateral valuation to account for forced sales value.

*Collective impairment provision:*

Our procedures included the following where impairment is calculated on a collective basis for portfolio of loans:

- understanding and assessing the appropriateness of the provisioning model for the Bank's portfolio;
- testing the inputs that is used in the model and sourced from underlying systems;
- testing ageing and credit classification of the loans on a sample basis; and
- where modelling assumptions were based on prior historic data, we evaluated whether the output of the models are consistent with the historical losses incurred in the portfolio. We then challenged the appropriateness of the adjustments made by management to reflect current market conditions, with reference to our own knowledge and to market and economic conditions.

We assessed the adequacy of the Bank's disclosure in relation to impairment of loans and advances by reference to the requirements of relevant accounting standards.

**Valuation and impairment of investment securities**

(refer to the use of estimate and management judgement in note 2(d), impairment policy in note 2f(xiv) and note 8 of the financial statements)

**Description**

**How the matter was addressed in our audit**

We focused on this area because:

- of the significance of investment securities (representing 34% of total assets) to the financial statements;
- of the total investment securities, a significant amount (representing 72% of total investment securities) comprise unquoted debt and equity securities at fair value, the measurement of which requires use of estimates and judgements; and

We understood and tested key controls and focused on:

- documenting and assessing the processes in place to record investment transactions and to value the quoted investment portfolio;
- agreeing the valuation of the quoted equity and debt securities to externally quoted prices;
- for unquoted equity securities, we challenged the appropriateness of the valuation methodology selected and compared key underlying financial data inputs to external sources, investee company financial statements and management information as applicable;
- for unquoted debt securities, we tested the valuation by evaluating the appropriateness of the valuation technique used and the inputs that are directly observable from market data;



**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)**

- the Bank makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.

For impairment of debt securities, we:

- evaluated individual debt security for any signs of significant financial difficulty of the issuer;
- assessed if there has been a default or past due event;
- assessed individual debt security for a significant drop in external credit rating; and
- assessed if there had been a significant drop in fair value.

For impairment of available-for-sale equity securities, we:

- examined whether management has identified all investments that have experienced a decline in fair value below cost; and
- evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolonged decline in fair value below cost has led to recognition of impairment.

We assessed the adequacy of the Bank's disclosure in relation to impairment of investment securities by reference to the requirements of relevant accounting standards.

**Other information**

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors report and other sections which forms part of the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the board of directors for the financial statements**

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

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

**Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



*INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements for the year ended 31 December 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other regulatory requirements**

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

- a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith;
- b) the financial information contained in the board of directors report is consistent with the 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 1, 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.

The engagement partner on the audit resulting in this independent auditors' report is Jaafar AlQubaiti.

KPMG Fakhro  
Partner registration number 83  
29 January 2018

# National Bank of Bahrain BSC

## Statement of Financial Position

As at 31 December	Note	2017		2016	
		BD millions	US\$ millions	BD millions	US\$ millions
<b>Assets</b>					
Cash and balances at central banks		107.04	284.68	102.99	273.92
Treasury bills	4	419.92	1,116.82	486.80	1,294.69
Placements with banks and other financial institutions	5	174.01	462.79	160.90	427.93
Trading securities	6	-	-	0.35	0.93
Loans and advances	7	1,226.85	3,262.90	1,031.93	2,744.48
Investment securities	8	1,067.30	2,838.56	1,092.92	2,906.71
Investment in associates	9	51.58	137.18	50.08	133.18
Interest receivable and other assets	10	41.79	111.15	38.71	102.96
Property and equipment	19	13.05	34.71	12.42	33.03
<b>Total assets</b>		<b>3,101.54</b>	<b>8,248.79</b>	<b>2,977.10</b>	<b>7,917.83</b>
<b>Liabilities</b>					
Due to banks and other financial institutions	11	384.01	1,021.30	373.81	994.19
Borrowings under repurchase agreements	12	67.83	180.40	64.28	170.96
Customer deposits	13	2,165.21	5,758.55	2,088.35	5,554.12
Interest payable and other liabilities	14	36.55	97.21	35.96	95.64
<b>Total liabilities</b>		<b>2,653.60</b>	<b>7,057.46</b>	<b>2,562.40</b>	<b>6,814.91</b>
<b>Equity</b>					
Share capital	20	127.54	339.20	115.95	308.38
Shares under employee share incentive scheme	20	(1.67)	(4.44)	(1.64)	(4.36)
Share premium	21	4.02	10.69	2.53	6.73
Statutory reserve	21	63.77	169.60	57.98	154.19
General reserve	21	32.40	86.17	32.40	86.17
Other reserves and retained earnings	21	221.88	590.11	207.48	551.81
<b>Total equity</b>		<b>447.94</b>	<b>1,191.33</b>	<b>414.70</b>	<b>1,102.92</b>
<b>Total liabilities and equity</b>		<b>3,101.54</b>	<b>8,248.79</b>	<b>2,977.10</b>	<b>7,917.83</b>

The board of directors approved the financial statements consisting of pages 1 to 37 on 29 January 2018 and signed on its behalf by:

  
**Farouk Yousuf Khalil Almoayyed**  
 Chairman

  
**Dr. Essam Abdulla Fakhro**  
 Deputy Chairman

  
**Jean Christophe Durand**  
 Chief Executive Officer

The accompanying notes 1 to 43 are an integral part of these financial statements.

# National Bank of Bahrain BSC

## Statement of Profit or Loss

For the year ended 31 December

	Note	2017		2016	
		BD millions	US\$ millions	BD millions	US\$ millions
Interest income	23	102.09	271.52	88.14	234.41
Interest expense	23	(29.02)	(77.19)	(22.15)	(58.90)
<b>Net interest income</b>		<b>73.07</b>	<b>194.33</b>	65.99	175.51
Other income	24	31.40	83.51	30.88	82.14
<b>Total operating income</b>		<b>104.47</b>	<b>277.84</b>	96.87	257.65
Staff expenses	25	21.30	56.65	23.90	63.57
Other expenses		11.69	31.09	10.19	27.13
<b>Total operating expenses</b>		<b>32.99</b>	<b>87.74</b>	34.09	90.70
<b>Profit before provisions</b>		<b>71.48</b>	<b>190.10</b>	62.78	166.95
Impairment provisions on loans and advances	7	(10.40)	(27.66)	(2.08)	(5.53)
Impairment provisions on investments		(0.07)	(0.19)	(2.46)	(6.54)
<b>Profit for the year</b>		<b>61.01</b>	<b>162.25</b>	58.24	154.88
<b>Basic and diluted earnings per share</b>	38	<b>48.4 fils</b>	<b>13 cents</b>	46.3 fils	12 cents

  
**Farouk Yousuf Khalil Almoayyed**  
 Chairman

  
**Dr. Essam Abdulla Fakhro**  
 Deputy Chairman

  
**Jean Christophe Durand**  
 Chief Executive Officer

The accompanying notes 1 to 43 are an integral part of these financial statements.

# National Bank of Bahrain BSC

## Statement of Comprehensive Income

For the year ended 31 December

	2017		2016	
	BD millions	US\$ millions	BD millions	US\$ millions
<b>Profit for the year</b>	<b>61.01</b>	<b>162.25</b>	58.24	154.88
<b>Other comprehensive income:</b>				
<b>Items that are or may be reclassified subsequently to profit or loss:</b>				
Foreign currency translation movement	-	-	(0.01)	(0.03)
Fair value reserve (available-for-sale securities):				
Net change in fair value	<b>1.11</b>	<b>2.95</b>	19.53	51.95
Net amount transferred to profit or loss	<b>(0.29)</b>	<b>(0.77)</b>	(1.89)	(5.03)
Share of other comprehensive income of associates	<b>0.03</b>	<b>0.08</b>	-	-
<b>Total other comprehensive income for the year</b>	<b>0.85</b>	<b>2.26</b>	17.63	46.89
<b>Total comprehensive income for the year</b>	<b>61.86</b>	<b>164.51</b>	75.87	201.77

The accompanying notes 1 to 43 are an integral part of these financial statements.



## National Bank of Bahrain BSC

### Statement of Changes in Equity

For the year ended 31 December 2017

In BD millions	Note	Share capital	Shares under employee share incentive scheme	Share premium	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings*	Total	
										BD millions	US\$ millions
Balance at 1 January 2017		115.95	(1.64)	2.53	57.98	32.40	25.26	14.66	167.56	414.70	1,102.92
2016 appropriations :											
Cash dividend at 25%		-	-	-	-	-	-	-	(28.65)	(28.65)	(76.19)
Bonus shares issued 10%		11.59	(0.14)	-	-	(11.59)	-	-	0.14	-	-
Transfer to donations and charity		-	-	-	-	-	-	2.91	(2.91)	-	-
Transfer to general reserve		-	-	-	-	17.38	-	-	(17.38)	-	-
Transfer to statutory reserve		-	-	-	5.79	(5.79)	-	-	-	-	-
Balance after 2016 appropriations		127.54	(1.78)	2.53	63.77	32.40	25.26	17.57	118.76	386.05	1,026.73
Employee shares allocated		-	0.11	1.49	-	-	-	-	-	1.60	4.26
Comprehensive income for the year:											
Profit for the year		-	-	-	-	-	-	-	61.01	61.01	162.25
Other comprehensive income		-	-	-	-	-	0.85	-	-	0.85	2.26
Total comprehensive income for the year		-	-	-	-	-	0.85	-	61.01	61.86	164.50
Utilisation of donation and charity reserve		-	-	-	-	-	-	(1.57)	-	(1.57)	(4.17)
<b>Balance at 31 December 2017</b>	20-22	<b>127.54</b>	<b>(1.67)</b>	<b>4.02</b>	<b>63.77</b>	<b>32.40</b>	<b>26.11</b>	<b>16.00</b>	<b>179.77</b>	<b>447.94</b>	<b>1,191.33</b>

\* The appropriations for the year 2017 will be submitted to the shareholders at the annual general meeting. These appropriations include BD 31.89 million for cash dividend at 25% (2016: 25%), BD 3.05 million for donations and contributions and a transfer of BD 19.13 million from retained earnings to general reserve. The Board of Directors has also proposed a one for ten bonus issue through utilization of BD 12.76 million from general reserve and the transfer of BD 6.38 million from General Reserve to Statutory Reserve .

For the year ended 31 December 2016

In BD millions	Note	Share capital	Shares under employee share incentive scheme	Share premium	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings	Total	
										BD millions	US\$ millions
Balance at 1 January 2016		105.41	(1.72)	1.21	51.75	32.40	7.62	13.40	154.69	364.76	970.11
2015 appropriations :											
Cash dividend at 25%		-	-	-	-	-	-	-	(25.98)	(25.98)	(69.10)
Bonus shares issued 10%		10.54	(0.15)	-	-	(10.54)	-	-	0.15	-	-
Transfer to donations and charity		-	-	-	-	-	-	2.76	(2.76)	-	-
Transfer to general reserve		-	-	-	0.96	15.81	-	-	(16.77)	-	-
Transfer to statutory reserve		-	-	-	5.27	(5.27)	-	-	-	-	-
Balance after 2015 appropriations		115.95	(1.87)	1.21	57.98	32.40	7.62	16.16	109.33	338.78	901.01
Employee shares allocated		-	0.23	1.32	-	-	-	-	-	1.55	4.13
Comprehensive income for the year:											
Profit for the year		-	-	-	-	-	-	-	58.24	58.24	154.88
Other comprehensive income		-	-	-	-	-	17.64	-	(0.01)	17.63	46.89
Total comprehensive income for the year		-	-	-	-	-	17.64	-	58.23	75.87	201.77
Utilisation of donation and charity reserve		-	-	-	-	-	-	(1.50)	-	(1.50)	(3.99)
<b>Balance at 31 December 2016</b>	20-22	<b>115.95</b>	<b>(1.64)</b>	<b>2.53</b>	<b>57.98</b>	<b>32.40</b>	<b>25.26</b>	<b>14.66</b>	<b>167.56</b>	<b>414.70</b>	<b>1,102.92</b>

The accompanying notes 1 to 43 are an integral part of these financial statements.

# National Bank of Bahrain BSC

## Statement of Cash Flows

For the year ended 31 December

	Note	2017		2016	
		BD millions	US\$ millions	BD millions	US\$ millions
<b>Cash flows from operating activities</b>					
<b>Profit for the year</b>		<b>61.01</b>	<b>162.25</b>	58.24	154.88
Adjustments to reconcile net income to net cash from operating activities :					
Depreciation		1.76	4.68	1.65	4.39
Impairment provisions on loans and advances	7	10.40	27.66	2.08	5.53
Impairment provisions on investments		0.07	0.19	2.46	6.54
Share of profit of associates		(3.75)	(9.97)	(2.99)	(7.95)
<b>Profit for the year after adjustments</b>		<b>69.49</b>	<b>184.81</b>	61.44	163.39
<b>Changes in operating assets and liabilities</b>					
Balances with central banks (mandatory cash reserves)		1.10	2.93	3.36	8.94
Treasury bills		18.64	49.57	(145.38)	(386.65)
Placements with banks and other financial institutions		16.31	43.38	(15.42)	(41.01)
Trading securities		0.35	0.93	5.69	15.13
Loans and advances		(205.32)	(546.06)	17.71	47.10
Investment securities		24.50	65.16	5.98	15.89
Interest receivable and other assets		0.30	0.80	0.88	2.34
Due to banks and other financial institutions		10.19	27.10	102.32	272.13
Borrowings under repurchase agreements		3.54	9.41	(5.37)	(14.28)
Customer deposits		76.87	204.44	(158.67)	(421.99)
Interest payable and other liabilities		0.59	1.57	1.74	4.63
<b>Net cash from/(used in) operating activities</b>		<b>16.56</b>	<b>44.04</b>	(125.72)	(334.39)
<b>Cash flows from investing activities</b>					
Investment in associates		-	-	(10.00)	(26.60)
Dividend received from associates		2.29	6.09	0.65	1.73
Purchase of property and equipment, net		(2.39)	(6.36)	(1.56)	(4.15)
<b>Net cash used in investing activities</b>		<b>(0.10)</b>	<b>(0.27)</b>	(10.91)	(29.02)
<b>Cash flows from financing activities</b>					
Dividends paid		(28.57)	(75.98)	(25.66)	(68.24)
Donations and charities paid		(1.57)	(4.18)	(1.50)	(3.99)
<b>Net cash used in financing activities</b>		<b>(30.14)</b>	<b>(80.16)</b>	(27.16)	(72.23)
<b>Net decrease in cash and cash equivalents</b>		<b>(13.68)</b>	<b>(36.39)</b>	(163.79)	(435.63)
<b>Cash and cash equivalents at 1 January</b>	15	<b>208.86</b>	<b>555.48</b>	372.65	991.10
<b>Cash and cash equivalents at 31 December</b>	15	<b>195.18</b>	<b>519.09</b>	208.86	555.48

The accompanying notes 1 to 43 are an integral part of these financial statements.

# Notes to the Financial Statements

## For the year ended 31 December 2017

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### 1. REPORTING ENTITY

National Bank of Bahrain BSC, a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank is licensed by Central Bank of Bahrain as a conventional retail bank.

The overseas branches in Abu Dhabi (United Arab Emirates) and Riyadh (Kingdom of Saudi Arabia) operate under the laws of those respective countries. The Bank is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities and investment advisory services.

The Bank's registered address is National Bank of Bahrain BSC, P.O.Box 106, NBB Tower, Government Avenue, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Bourse, Manama, Kingdom of Bahrain.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### a. Statement of Compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

#### b. Basis of preparation

The financial statements of the Bank are presented in Bahraini Dinar (BHD) being the functional currency of the Bank. The US Dollar (US\$) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US dollar at the rate of BHD 0.376 to US\$ 1 (2015: BHD 0.376 to US\$ 1).

The financial statements have been prepared on the historical cost convention except for financial instruments at fair value through profit or loss, available-for-sale investments and derivative financial instruments which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the years presented except as described below:

#### i) New standards, amendments and interpretations effective from 1 January 2017:

There are no new standards, amendments and interpretations, which became effective as of 1 January 2017, that are relevant to the Bank.

#### ii) New standards, amendments and interpretations issued but not yet effective:

The following standards and interpretations have been issued and are expected to be relevant to the Bank in future periods, with effective dates on or after 1 January 2018.

#### a) IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information in compliance with IFRS 9. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

## Notes to the Financial Statements

### For the year ended 31 December 2017

The Bank has assessed the estimated impact on initial application of IFRS 9 as at 1 January 2018 on its financial statements as below. This assessment is preliminary because the Bank is in the process of finalizing the transition work. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting process and internal controls and these changes are in progress;
- Parallel runs of the new systems and associated controls were carried out in second half of 2017, however, it needs to be carried out for an extended period of time;
- The process of testing and assessment of controls over its new IT systems and changes to its governance framework are in progress;
- Refining and finalizing its models for ECL calculations is in progress; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank presents its first financial statements that include the date of initial application.

	Retained earnings	Fair value reserve
	<i>BD'000</i>	<i>BD'000</i>
Closing balance under IAS 39 (31 December 2017)	<b>179,771</b>	<b>26,115</b>
Impact on classification and measurements under IFRS 9 (a)		
Investment securities (equity) from available-for-sale to those measured at fair value through other comprehensive income (a.1)	14,234	(14,234)
	194,005	11,881
Impact on recognition of Expected Credit Losses (b)		
Expected credit losses under IFRS 9 for due from banks and debt securities at amortised cost	-	-
Expected credit losses under IFRS 9 for loan and advances at amortised cost including loan commitments and financial guarantees	(3,617)	-
Expected credit losses under IFRS 9 for debt securities at fair value through other comprehensive income	(672)	-
	(4,289)	-
Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018	<b>189,716</b>	<b>11,881</b>

#### (a.1) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: (a) measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVTOCI) and Fair Value through Profit or Loss (FVTPL). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are no longer bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on the Bank's assessment, the new IFRS 9 classification requirements is expected to have a material impact on its accounting for loans, investments in debt securities and investments in equity securities as follows:

(a.1) At 31 December 2017, the Bank had equity investments classified as available-for-sale with a fair value of BD 49,142 thousand (USD 130,698 thousand). Under IFRS 9, the Bank has designated these investments as measured at FVTOCI. Due to this reclassification, an increase of BD 14,234 thousand (USD 37,856 thousand) is estimated in the retained earnings along with a corresponding decrease in fair value reserve due to reclassification of impairment on equity investments measured at fair value through other comprehensive income to the reserves.

#### (a.2) Expected credit losses

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVTOCI,

## Notes to the Financial Statements

### For the year ended 31 December 2017

except for investments in equity instruments. 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 groups of similar financial assets for the purposes of measuring ECL; and
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

#### (a.3) Financial liabilities

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

#### (a.4) Hedge accounting

IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

When initially applying IFRS 9, the Bank has the option to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. However, the Bank determined that all existing hedge relationships that are currently designated in effective hedging relationships would continue to qualify for hedge accounting under IFRS 9. The new hedge accounting requirements under IFRS 9 will not have a material impact on hedge accounting applied by the Bank.

#### (a.5) Disclosure

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

#### b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank does not expect to have a significant impact on its financial statements from adoption of this standard.

#### c) Classification and Measurement of Shared-based Payment Transactions (Amendments to IFRS 2)

Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payment.

The amendments cover three accounting areas:

- measurement of cash-settled share-based payments;
- classification of share-based payments settled net of tax withholdings; and
- accounting for a modification of a share-based payment from cash-settled to equity-settled.

The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards. There is currently no guidance in IFRS 2 on how to measure the fair value of the liability incurred in a cash-settled share-based payment.

The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method. Therefore, in measuring the liability:

- market and non-vesting conditions are taken into account in measuring its fair value; and

## Notes to the Financial Statements

### For the year ended 31 December 2017

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- the number of awards to receive cash is adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions

The amendments can be applied prospectively so that prior periods do not have to be restated. Retrospective, or early, application is permitted if companies have the required information. The amendments are effective for annual periods commencing on or after 1 January 2018. The Bank does not expect to have a significant impact on its financial statements.

#### **d) IFRS 16 Leases**

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Bank has started an initial assessment of the potential impact on its financial statements. The Bank has not yet decided whether it will use the optional exemptions.

#### **iii) Early adoption of standards**

The Bank did not early adopt new or amended standards in 2017.

#### **c. Foreign currencies**

Foreign currency transactions:

Foreign currency transactions are initially recorded at rates of exchange prevailing at the value date of the transactions. Monetary assets and liabilities in foreign currencies are translated to respective functional currencies at the rates of exchange prevailing at the statement of financial position date. Realised and unrealised exchange gains or losses are recognised in the statement of profit or loss and included in "other income".

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised directly in other comprehensive income as part of fair value changes.

Foreign operations:

The assets and liabilities of the overseas branches are translated into Bahraini Dinar at spot exchange rate at the reporting date. The income and expenses of these overseas branches for the period are translated into Bahraini Dinar at average exchange rates. Differences resulting from the translation of the opening net investment in these overseas branches are recognised in other comprehensive income.

#### **d. Use of estimates and management judgement**

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the application of standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss

## Notes to the Financial Statements

### For the year ended 31 December 2017

experience for assets within credit risk characteristics and objective evidence of impairment similar to those in the portfolio to assess impairment.

The Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances—for example selling an insignificant amount close to maturity—the Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

The Bank considers that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of significant or prolonged decline requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price for the specific equity instrument and also the general market index. In addition, the Bank considers impairment when there is evidence of deterioration in the financial health of the investee company, industry and sector performance, changes in technology and operational and financing cash flows.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

#### **e. Accounting for income and expenses**

i) Interest income and expenses are recognised in the statement of profit or loss on an accrual basis using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

ii) Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate. Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

iii) Dividend income is recognised when the right to receive a dividend is established.

iv) Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank 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.

The Bank has different retirement benefit schemes for its employees in Bahrain and its overseas branches, which are in accordance with the relevant labour laws of the respective countries. The retirement benefit scheme is in the nature of a 'Defined Contribution Plan' for employees who are covered by the social insurance pension schemes in Bahrain and the overseas branches. Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws, based on length of service and final remuneration. This liability, which is unfunded, is considered as a 'Defined Benefit Plan' which represents a defined benefit scheme under IAS 19, and is provided for on the basis of the cost had all such employees left at the statement of financial position date. The cost of providing these retirement benefits is charged to the statement of profit or loss.

The Bank has a voluntary employees saving scheme. The Bank and the employees contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees who are the employees of the Bank. The Bank's share of contribution to this scheme is charged to the statement of profit or loss.

v) Other expenses are recognised in the period in which they are incurred on an accrual basis.

## Notes to the Financial Statements

### For the year ended 31 December 2017

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#### f. Financial assets and liabilities

i) Investments at fair value through profit or loss comprised of investments designated at inception at fair value though profit or loss and trading investments.

Investments designated at fair value through profit or loss: Investment securities which are acquired with an intent to hold for an indefinite period of time, and are managed, evaluated and reported internally on a fair value basis are designated as investments at fair value through profit or loss. These investments are carried at fair value based on quoted market prices, fund manager quotes or amounts derived from cash flow models as appropriate. Any unrealised gains and losses arising from changes in fair value are recognised in the statement of profit or loss.

Trading securities: Securities which are either acquired for the purpose of generating profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists are categorised as trading securities. These securities are initially recognised at fair value and subsequently measured at fair value based on quoted market bid prices. Realised and unrealised gains and losses on trading securities are included in the statement of profit or loss.

ii) Held-to-maturity investments

Held-to-maturity investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank positively intends, and is able, to hold until maturity. Held to maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

iii) Available-for-sale investments

Investments which are non-derivative and which are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates or concerns with respect to credit deterioration are categorised as available-for-sale investments. Available-for-sale investments which comprise both debt and equity investments are initially recognised at fair value, including transaction costs, and subsequently measured at fair value based on quoted market prices, brokers quotes or amounts derived from cash flow models as appropriate. Unrealised gains and losses arising from changes in the fair values of available-for-sale investments are recognised in other comprehensive income. The cumulative fair value adjustments on available-for-sale investments which are sold or otherwise disposed of and which had previously been recognised in other comprehensive income are transferred to the statement of profit or loss.

iv) Investment securities measured at amortised cost

Investments measured at amortised cost are those non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Investment securities measured at amortised cost are stated at amortised cost, less provision for impairment.

v) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are stated at amortised cost, adjusted for changes in fair value under any effective hedging arrangement, less provision for impairment.

vi) Customer deposits

Customer deposits are initially recognised at their fair value and subsequently measured at their amortised cost using the effective interest method.

vii) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the contractual terms.

Financial guarantees are initially recognised at fair value (which is the premium received on issuance). The premium received is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortised portion of the premium on these financial guarantees is included under other liabilities.



## Notes to the Financial Statements

### For the year ended 31 December 2017

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#### viii) Derivative financial instruments

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of profit or loss line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of profit or loss under other income.

In the case of cash flow hedges that meet the criteria of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion, if any, is recognised in the statement of profit or loss.

All derivative financial instruments are recognised in the statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

#### ix) Repos and Reverse repos

Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as Borrowings under Repurchase Agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised on the statement of financial position and the consideration paid is recorded in Placements with Banks and Other Financial Institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective yield method.

#### x) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances at central banks excluding mandatory cash reserves, placements with banks and other financial institutions that mature within three months of the date of placement, and short-term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value and mature within three months of the date of acquisition and are used by the Bank in the management of its short term commitments.

#### xi) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method.

#### xii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of a financial instrument using quoted market prices in an active market for that instrument. This includes listed equity and debt securities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For unlisted debt securities fair value is based on brokers quotes, recent arm's length transactions between knowledgeable, willing parties (if available) and discounted cash flow analyses with accepted economic methodologies for pricing financial instruments.

#### xiii) Categorisation of financial assets

The categorisation of financial assets into fair value through profit or loss, available-for-sale and held-to-maturity is done on the basis of the management intent at the time these securities are acquired and laid down investment policies.

## Notes to the Financial Statements

### For the year ended 31 December 2017

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#### xiv) Identification and measurement of impairment

At each reporting date, the carrying amount of the Bank's financial assets not carried at fair value through profit or loss is reviewed to determine whether there is objective evidence that a specific asset may be impaired. Financial asset(s) is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

Objective evidence that financial assets are impaired include significant financial difficulty of the borrower or issuer, default or delinquency of a borrower, the restructuring of a loan or advance by the Bank on terms the Bank would not consider otherwise, indicators that a borrower or issuer will enter bankruptcy or the disappearance of an active market for a security.

Impairment losses on assets carried at amortised cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced directly or through use of an allowance account. The amount of the loss shall be recognized in statement of profit or loss. When subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through statement of profit or loss.

The Bank considers evidence of impairment for loans and advances at both specific and collective level.

All individually significant loans and advances are assessed for specific impairment. Specific provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at the present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

Impairment and uncollectability is also measured and recognised on a portfolio basis for a group of loans and advances with similar credit risk characteristics, that are not individually identified as impaired, on the basis of estimates of losses that have been incurred but not yet specifically identified within the loans and advances portfolio at the statement of financial position date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

Loans and advances are written off after all reasonable attempts at restructuring and possible courses of action to achieve recovery have been exhausted and the possibility of any further recovery is considered to be remote.

In case of debt securities classified as available-for-sale, the Bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. The amount of impairment loss is the difference between the acquisition cost, net of any principle repayment and amortisation, and the current fair value, less impairment loss previously recognised in the statement of profit or loss. If, in subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, then the impairment loss is reversed through the statement of profit or loss.

For an investment in equity security classified as available-for-sale, a significant or prolonged decline in fair value below cost is an objective evidence of impairment. Where there is an objective evidence of impairment, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the statement of profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

#### xv) De-recognition of financial assets and liabilities

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

- The rights to receive cash flows from the asset have expired

## Notes to the Financial Statements

### For the year ended 31 December 2017

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

If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be de-recognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and the new financial asset is recognized at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

#### **g. Impairment of non-financial assets**

At each statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **h. Investment in associates**

Associates are those entities in which the Bank has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost, which includes the transaction costs. The financial statements of the Bank include its share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases. On cessation of significant influence, even if an investment in an associate becomes an investment in a joint venture, the entity does not re-measure the retained interest. When the Bank's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the associate.

#### **i. Property and equipment**

Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. The cost of an item of property and equipment comprises its purchase price

## Notes to the Financial Statements

### For the year ended 31 December 2017

and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture and Equipment	3 to 8 years

The residual value and the useful life of property and equipment are reviewed periodically and, if expectations differ from previous estimates, the change is recognised prospectively in the statement of profit or loss over the remaining estimated useful life of the property and equipment.

#### **j. Other provisions**

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

#### **k. Off-setting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the bank currently has a legally enforceable right to set-off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### **l. Settlement date accounting**

All “regular way” purchases and sales of financial assets except for derivatives are recognised on the settlement date i.e. the date the Bank receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative transactions are recognised on trade date i.e. the date the Bank contracts to purchase or sell.

#### **m. Proposed appropriations**

Dividends and other proposed appropriations are recognised as a liability in the period in which they are approved by the shareholders.

#### **n. Remuneration policy**

Board of Directors - The remuneration of the Board of Directors is approved by the shareholders. In addition, directors are paid nominal fees for attending meetings of the sub-committees of Board.

Employees - The remuneration primarily consists of monthly salaries and allowances. The Bank also has a discretionary profit sharing scheme based on the net income for the year and considering the employees’ performance during the year.

The above is in compliance with the sound remuneration practices of the Central Bank of Bahrain.

#### **o. Segment reporting**

An operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the other components of the Bank. All operating results of the operating segments are reviewed regularly by the Chief Executive Officer to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

#### **p. Earnings per share**

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

#### **q. Income tax liability**

The Bank’s operations in Bahrain and Abu Dhabi are not liable to income tax. Riyadh branch is subject to income tax in accordance with the Saudi Income Tax Law. Income tax, if any, is charged to the statement of profit or loss.

## Notes to the Financial Statements

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#### r. Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans and advances 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'.

#### s. Fund administration

The Bank acts as a trustee/manager and in other capacities that result in holding or placing of assets on behalf of trust or other institutions. These assets and income arising thereon are not included in the Bank's financial statements as they are not assets of the Bank.

### 3. FINANCIAL RISK MANAGEMENT

The Bank is exposed to the following types of risks:

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

#### Risk management framework

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk Group of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. This Group functions independent of the business units and reports directly to the Chief Executive Officer and the Audit Committee of the Board.

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

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

#### Credit Risk

Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available) track record, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties.

The Credit Risk Department of the Bank independently analyses risks and puts forth its recommendations prior to approval by the appropriate authorities for facilities above a specified threshold. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and annual review process supports the identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 16-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least

## **Notes to the Financial Statements**

### **For the year ended 31 December 2017**

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on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

#### **Liquidity Risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liabilities management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

#### **Market Risk**

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardized method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk.

#### **Operational Risk**

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address any potential risks. Additionally, new products and services are reviewed and assessed for operational risks prior to their implementation.

The scope of the Bank's Internal Audit division encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. The Internal Audit division is operationally independent and reports significant internal control deficiencies to the Audit Committee.

#### **Capital Management**

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Central Bank of Bahrain's (CBB) Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises 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 regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

## Notes to the Financial Statements For the year ended 31 December 2017

### 4 TREASURY BILLS

Treasury bills are short-term in nature. These include treasury bills issued by the Government of Bahrain and Government of Saudi Arabia. They also include short-term Islamic Sukuk issued by the Government of Bahrain.

As at 31 December	2017		2016	
	BD'000	US\$'000	BD'000	US\$'000
Government of Bahrain	409,912	1,090,191	476,800	1,268,085
Government of Saudi Arabia	10,011	26,625	10,002	26,601
<b>Total</b>	<b>419,923</b>	<b>1,116,816</b>	<b>486,802</b>	<b>1,294,686</b>

### 5 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Placements with banks and other financial institutions are part of the Bank's money market activities and comprises short-term lending to banks and other financial institutions.

As at 31 December	2017		2016	
	BD'000	US\$'000	BD'000	US\$'000
Placements with banks	158,217	420,790	145,484	386,926
Placements with other financial institutions	15,792	42,000	15,416	41,000
<b>Total</b>	<b>174,009</b>	<b>462,790</b>	<b>160,900</b>	<b>427,926</b>

As at 31 December	2017		2016	
	BD'000	US\$'000	BD'000	US\$'000
Current and call accounts	15,086	40,124	12,352	32,851
Term placements	158,923	422,668	148,548	395,075
<b>Total</b>	<b>174,009</b>	<b>462,792</b>	<b>160,900</b>	<b>427,926</b>

### 6 TRADING SECURITIES

As at 31 December	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Equity securities	-	-	349	928
<b>Total</b>	<b>-</b>	<b>-</b>	<b>349</b>	<b>928</b>

### 7 LOANS AND ADVANCES

a) As at 31 December	2017		2016	
	BD'000	US\$'000	BD'000	US\$'000
Loans and advances to non-banks	1,112,779	2,959,519	947,443	2,519,796
Loans and advances to banks	156,798	417,016	134,028	356,457
Less: Provision for impairment	(42,727)	(113,636)	(49,545)	(131,769)
<b>Total</b>	<b>1,226,850</b>	<b>3,262,899</b>	<b>1,031,926</b>	<b>2,744,484</b>

b) As at 31 December 2017, the amount of floating rate loans for which interest was being reset by the Bank on agreed dates and based on an agreed fixed margin over a benchmark interest rate, amounted to BD 612.70 million (US\$ 1,629.40 million) [31 December 2016: BD 515.30 million (US\$ 1,370.50 million)].

## Notes to the Financial Statements For the year ended 31 December 2017

### 7 LOANS AND ADVANCES (Continued.....)

c) In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are defined as non-performing on which interest is not being accrued. The following is the ageing schedule of non-performing loans and advances. The table shows the time period since the date of last repayment of principal or interest by the customer.

As at 31 December	2017		2016	
	BD'000	US\$'000	BD'000	US\$'000
Over 3 months to 1 year	25,684	68,309	7,544	20,063
1 to 3 years	13,349	35,503	21,780	57,926
Over 3 years	48,726	129,590	54,253	144,290
<b>Total</b>	<b>87,759</b>	<b>233,402</b>	<b>83,577</b>	<b>222,279</b>

Loans that are "past due below 90 days but not impaired" are those for which contractual interest and principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Bank. As at 31 December 2017, loans past due below 90 days but not impaired amounted to BD 9.87 million (US\$ 26.26 million) [31 December 2016: BD 3.78 million (US\$ 10.04 million)].

d) The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be de-recognized and the renegotiated loan recognized as a new loan.

The Bank renegotiates loans to customers as a result of changes in anticipated cash flows and / or in financial difficulties (referred to as "forbearance activities") to maximize collection opportunities and minimize the risk of default. During 2017, credit facilities amounting to BD 0.1 million (US\$ 0.13 million) were restructured [2016: Nil]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections and amending the terms of loan covenants. Due to minor nature of concessions, there was no significant impact on the Bank's provisions on loans and advances impairment and present and future earnings.

e) The Bank holds collateral against loans and advances to customers in the form of lien over deposits, mortgage over properties and/or shares and sovereign/ bank guarantees. As at 31 December 2017, loans and advances amounting to BD 340.2 million (US\$ 904.80 million) [31 December 2016: BD 222.59 million (US\$ 591.99 million)] were fully collateralized and loans and advances amounting to BD 48.90 million (US\$ 130.1 million) [31 December 2016: BD 11.08 million (US\$ 29.47 million)] were partly collateralized with a collateral value of BD 29.22 million (US\$ 77.71 million) [31 December 2016: BD 4.14 million (US\$ 11.01 million)].



## Notes to the Financial Statements For the year ended 31 December 2017

### 7 LOANS AND ADVANCES (Continued.....)

#### f) Exposure to credit risk As at 31 December

	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
<b>Total carrying amount</b>	<b>1,226,850</b>	<b>3,262,899</b>	<b>1,031,926</b>	<b>2,744,484</b>
<b>1. Individually impaired</b>				
Substandard	77,747	206,774	58,130	154,601
Doubtful	1,916	5,096	1,869	4,971
Loss	8,096	21,532	23,578	62,707
Individually impaired net of interest in suspense	87,759	233,402	83,577	222,279
Specific provision for impairment	(30,261)	(80,481)	(36,509)	(97,098)
<b>Individually impaired carrying amount</b>	<b>57,498</b>	<b>152,921</b>	<b>47,068</b>	<b>125,181</b>
<b>2. Past due below 90 days but not impaired</b>				
Gross amount	9,874	26,262	3,776	10,043
Collective impairment provision	(104)	(277)	(48)	(128)
<b>Past due but not impaired carrying amount</b>	<b>9,770</b>	<b>25,985</b>	<b>3,728</b>	<b>9,915</b>
<b>3. Neither past due nor impaired by internal rating</b>				
Rated 1	55,884	148,628	47,352	125,936
Rated 2	4,884	12,990	23,900	63,564
Rated 3	81,916	217,862	64,624	171,872
Rated 4+ to 4-	107,215	285,146	136,248	362,362
Rated 5+ to 5-	199,222	529,846	116,703	310,380
Rated 6+ to 6-	129,742	345,058	215,431	572,955
Rated 7	171,902	457,186	13,578	36,112
Unrated*	421,179	1,120,155	376,282	1,000,750
Gross amount	1,171,944	3,116,871	994,118	2,643,931
Collective impairment provision	(12,362)	(32,878)	(12,988)	(34,543)
<b>Carrying amount of neither past due nor impaired</b>	<b>1,159,582</b>	<b>3,083,993</b>	<b>981,130</b>	<b>2,609,388</b>
<b>Total carrying amount</b>	<b>1,226,850</b>	<b>3,262,899</b>	<b>1,031,926</b>	<b>2,744,484</b>

\* Includes mainly consumer loans and other facilities that are not assigned any ratings at inception.

#### g) Impairment provisions on loans and advances

Movements during the year	Specific impairment provision		Collective impairment provision		Total impairment provisions	
	2017	2016	2017	2016	2017	2016
Amounts in BD '000						
At 1 January	36,509	35,819	13,036	12,815	49,545	48,634
Net charge for the year	9,225	1,074	1,175	1,010	10,400	2,084
Amounts written off against provision	(17,262)	(1,173)	-	-	(17,262)	(1,173)
Transfers, recoveries & write backs	1,789	789	(1,745)	(789)	44	-
<b>At 31 December</b>	<b>30,261</b>	<b>36,509</b>	<b>12,466</b>	<b>13,036</b>	<b>42,727</b>	<b>49,545</b>

The provisions relate to loans and advances to non-banks. In accordance with the Central Bank of Bahrain guidelines, interest on non-performing loans is reversed from income and is accounted for on a cash basis.

## Notes to the Financial Statements For the year ended 31 December 2017

### 8 INVESTMENT SECURITIES

Investment securities comprise the following:

As at 31 December	2017		2016	
	BD'000	US\$'000	BD'000	US\$'000
Available-for-sale investments	1,081,285	2,875,758	1,106,784	2,943,574
Provision for impairment on available-for-sale investments	(14,234)	(37,856)	(14,164)	(37,670)
<b>Subtotal</b>	<b>1,067,051</b>	<b>2,837,902</b>	1,092,620	2,905,904
Investments designated at fair value through profit or loss	249	662	303	806
<b>Total investment securities</b>	<b>1,067,300</b>	<b>2,838,564</b>	1,092,923	2,906,710

#### A) Available-for-sale investments

##### i. Breakdown of quoted and unquoted investments

As at 31 December	2017		2016	
	BD'000	US\$'000	BD'000	US\$'000
Quoted :				
Debt securities	332,463	884,210	320,614	852,697
Equity securities	52,508	139,649	53,409	142,045
<b>Total</b>	<b>384,971</b>	<b>1,023,859</b>	374,023	994,742
Provision for impairment on available for sale securities	(14,234)	(37,856)	(14,164)	(37,670)
<b>Total net quoted securities</b>	<b>370,737</b>	<b>986,003</b>	359,859	957,072
Unquoted :				
Debt securities	685,445	1,822,992	722,429	1,921,353
Equity securities	10,869	28,907	10,332	27,479
<b>Total net unquoted securities</b>	<b>696,314</b>	<b>1,851,899</b>	732,761	1,948,832
<b>Total Available-for-sale investments</b>	<b>1,067,051</b>	<b>2,837,902</b>	1,092,620	2,905,904

##### ii. Breakdown between fixed rate and floating rate available-for-sale debt securities

As at 31 December	2017		2016	
	BD'000	US\$'000	BD'000	US\$'000
Fixed rate debt securities	350,534	932,272	425,720	1,132,234
Floating rate debt securities *	667,374	1,774,931	617,323	1,641,816
<b>Total</b>	<b>1,017,908</b>	<b>2,707,203</b>	1,043,043	2,774,050

\* Floating rate debt securities at 31 December 2017 include securities amounting to BD 659.61 million (US\$ 1,754.30 million) [31 December 2016: BD 608.25 million (US\$ 1,617.70 million)] of hedged fixed rate bonds.

##### iii. Breakdown of available-for-sale debt securities by rating

The ratings given below are by established rating agencies.

As at 31 December	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
AAA	24,121	64,152	9,339	24,838
AA	13,270	35,293	12,304	32,723
A	21,721	57,769	36,384	96,766
BBB	3,740	9,947	18,138	48,239
BB **	11,326	30,122	965,015	2,566,529
B *	930,399	2,474,463	-	-
Unrated	13,331	35,455	1,863	4,955
<b>Total</b>	<b>1,017,908</b>	<b>2,707,201</b>	1,043,043	2,774,050

\* 2017 represent mainly Government of Bahrain Bonds and Islamic Sukuks (\*\* 2016: BB)

## Notes to the Financial Statements For the year ended 31 December 2017

### B) Investments designated at fair value through profit or loss

Fair value through profit or loss investment securities comprise investments as under:

As at 31 December	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Investments in managed funds	249	662	303	806
<b>Total</b>	<b>249</b>	<b>662</b>	<b>303</b>	<b>806</b>

### 9 INVESTMENT IN ASSOCIATES

The Bank has a 29.06% shareholding in Bahrain Islamic Bank BSC. The Bahrain Islamic Bank is incorporated in the Kingdom of Bahrain and operates under a retail banking license issued by the Central Bank of Bahrain and carries out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a).

The Bank has a 34.84% interest in The Benefit Company BSC (c) incorporated in the Kingdom of Bahrain. The Benefit Company has been granted a license for ancillary services by the Central Bank of Bahrain to provide payment systems, Bahrain Cheque Truncation and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Bank has a 24.27% interest of the units issued by the Bahrain Liquidity Fund (BLF). BLF was set up in 2016 as an open ended fund registered as Private Investment Undertaking "PIU" as per Central Bank of Bahrain Rulebook Volume 7. The main objective of BLF is to add liquidity to Bahrain Bourse, which over a period of time should result in enhancing investors' confidence in the market's listed securities

The Bank has recognised the above investments as equity accounted associates in accordance with IAS 28 "Investment in associates".

	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
At 1 January	50,076	133,181	37,749	100,395
Acquisition during the year	-	-	10,000	26,596
Share of profit	3,753	9,981	2,985	7,939
Dividends received	(2,285)	(6,077)	(650)	(1,729)
Share of change in fair value reserve	33	88	(8)	(21)
<b>At 31 December</b>	<b>51,577</b>	<b>137,173</b>	<b>50,076</b>	<b>133,180</b>

Shares of Bahrain Islamic Bank are listed on the Bahrain Stock Exchange and the quoted price on 31 December 2017 is BD 0.150 (31 December 2016: BD 0.123). The estimated fair value of the investment based on this price is BD 44.17 million (US\$ 117.48 million) [(31 December 2016: BD 36.22 million) (US\$ 96.33 million)].

The financial statements of the associates used for applying the equity accounting are as of 30 September 2017 which is different from the reporting date of the Bank. Accordingly, amounts have been adjusted for material transactions, if any, for the period from 30 September 2017 to the Bank's reporting date.

### 10 INTEREST RECEIVABLE AND OTHER ASSETS

As at 31 December	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Interest receivable	24,341	64,737	22,251	59,178
Accounts receivable & prepayments	8,956	23,819	8,611	22,902
Positive fair value of derivatives	4,179	11,114	3,455	9,189
Others *	4,318	11,481	4,397	11,694
<b>Total</b>	<b>41,794</b>	<b>111,151</b>	<b>38,714</b>	<b>102,963</b>

\* Others include BD 4.18 million (US\$ 11.12 million) [31 December 2016: BD 4.18 million (US\$ 11.12 million)] in respect of land and buildings acquired from customers and now held for disposal. The land and buildings are stated at lower of cost and net realisable value.

### 11 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions consists of short-term borrowings from banks and other financial institutions.

As at 31 December	2017		2016	
	BD'000	US\$'000	BD'000	US\$'000
Current and call accounts	54,085	143,843	74,150	197,207
Term deposits	329,922	877,452	299,664	796,979
<b>Total</b>	<b>384,007</b>	<b>1,021,295</b>	<b>373,814</b>	<b>994,186</b>

### 12 BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements amounts to BD 67.83 million (US\$ 180.40 million) [31 December 2016: BD 64.28 million (US\$ 170.96 million)] and the fair value of the investment securities pledged as collateral amounts to BD 71.92 million (US\$ 191.27 million) [31 December 2016: BD 69.45 million (US\$ 184.71 million)].

### 13 CUSTOMER DEPOSITS

As at 31 December	2017		2016	
	BD'000	US\$'000	BD'000	US\$'000
Repayable on demand or at short notice	1,223,858	3,254,941	1,188,342	3,160,484
Term deposits	941,356	2,503,606	900,006	2,393,633
<b>Total</b>	<b>2,165,214</b>	<b>5,758,547</b>	<b>2,088,348</b>	<b>5,554,117</b>

## Notes to the Financial Statements For the year ended 31 December 2017

### 14 INTEREST PAYABLE AND OTHER LIABILITIES

As at 31 December	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Interest payable	18,784	49,957	18,809	50,024
Creditors & account payables	3,023	8,040	2,152	5,723
Deferred income	1,364	3,628	1,800	4,787
Employee benefits	9,355	24,880	11,066	29,431
Negative fair value of derivatives	1,115	2,965	719	1,912
Others	2,908	7,736	1,413	3,758
<b>Total</b>	<b>36,549</b>	<b>97,206</b>	<b>35,959</b>	<b>95,635</b>

### 15 CASH AND CASH EQUIVALENTS

As at 31 December	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Cash and balances with central banks*	23,739	63,136	18,589	49,439
Treasury bills	-	-	48,242	128,303
Placements with banks and other financial institutions	171,443	455,965	142,025	377,726
<b>Total</b>	<b>195,182</b>	<b>519,101</b>	<b>208,856</b>	<b>555,468</b>

\* Exclude balances with central banks of BD 83.30 million (US\$ 221.54 million) [31 December 2016: BD 84.40 million (US\$ 224.47 million)] maintained for the purpose of the cash reserve ratio requirement set by the central banks.

### 16 CONTINGENT LIABILITIES AND BANKING COMMITMENTS

The Bank issues commitments to extend credit and guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. The credit exposure for the contingent liabilities is reduced by obtaining counter guarantees and collateral from third parties. A large majority of these expire without being drawn upon, and as a result, the contractual amounts are not representative of the actual future credit exposure or liquidity requirements of the Bank.

Based upon the level of fees currently charged, taking into account maturity and interest rates together with any changes in the credit worthiness of counter parties since origination, the Bank has determined that the fair value of contingent liabilities and undrawn loan commitments is not material.

As at 31 December	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
<b>Contingent liabilities</b>				
Liabilities on confirmed documentary credits	33,558	89,250	27,492	73,117
Guarantees :				
Counter guaranteed by banks	48,662	129,420	43,815	116,529
Others	117,249	311,832	114,278	303,931
<b>Sub-total</b>	<b>199,469</b>	<b>530,502</b>	<b>185,585</b>	<b>493,577</b>
<b>Banking commitments</b>				
Undrawn loan commitments	82,883	220,434	58,195	154,774
Forward commitments:				
Interbank placing	8,000	21,277	-	-
<b>Sub-total</b>	<b>90,883</b>	<b>241,711</b>	<b>58,195</b>	<b>154,774</b>
<b>Total</b>	<b>290,352</b>	<b>772,213</b>	<b>243,780</b>	<b>648,351</b>

## Notes to the Financial Statements For the year ended 31 December 2016

### 17 DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Bank utilises various derivative and foreign exchange financial instruments for trading, asset/liability management and hedging risks. These instruments primarily comprise futures, forwards, swaps and options.

Futures and forward contracts are commitments to buy or sell financial instruments or currencies on a future date at a specified price or yield, and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash on a future date or dates, interest rate commitments or currency amounts based upon differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the acquirer, for a fee, the right but not the obligation, to buy or sell within a limited period a financial instrument or currency at a contracted price.

In respect of the derivative and foreign exchange financial instruments, the contract/notional principal amounts do not represent balances subject to credit or market risk. Contract/notional principal amounts represent the volume of outstanding transactions and are indicators of business activity. These amounts are used to measure changes in the value of derivative products and to determine the cash flows to be exchanged. The replacement cost is the cost of replacing those financial instruments with a positive market value, together with an estimate for the potential future change in the value of the contract, and reflects the maximum credit loss for the Bank had all these counter parties defaulted. For written options, there is no credit risk, as they represent obligations of the Bank. The fair value represents the aggregate of the positive and negative cash flows which would have occurred if the rights and obligations arising from the instrument were extinguished by the Bank in an orderly market as at the reporting date. The fair values of derivative financial instruments such as interest rate swaps and forward rate agreements were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. The futures contracts, foreign exchange contracts and interest rate options were revalued using market prices and option valuation models as appropriate.

a) The following table summarises for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value :

Amounts in BD '000	Notional principal amount		Replacement cost		Fair value	
	2017	2016	2017	2016	2017	2016
<b>As at 31 December</b>						
<b>Interest rate contracts</b>						
Interest rate swaps	651,275	644,689	2,164	1,160	2,164	1,160
<b>Sub-total</b>	<b>651,275</b>	<b>644,689</b>	<b>2,164</b>	<b>1,160</b>	<b>2,164</b>	<b>1,160</b>
<b>Foreign exchange contracts</b>						
Outright spot and forward contracts	293,168	259,048	861	1,569	337	1,346
Swap agreements	490,254	313,758	1,154	726	572	230
Options	905	-	-	-	(9)	-
<b>Sub-total</b>	<b>784,327</b>	<b>572,806</b>	<b>2,015</b>	<b>2,295</b>	<b>900</b>	<b>1,576</b>
<b>Total</b>	<b>1,435,602</b>	<b>1,217,495</b>	<b>4,179</b>	<b>3,455</b>	<b>3,064</b>	<b>2,736</b>

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows :

Amounts in BD '000	2017			2016		
	Up to 1 year	More than one year	Total	Up to 1 year	More than one year	Total
<b>As at 31 December</b>						
<b>Interest rate contracts</b>						
Interest rate swaps	-	651,275	651,275	-	644,689	644,689
<b>Sub-total</b>	<b>-</b>	<b>651,275</b>	<b>651,275</b>	<b>-</b>	<b>644,689</b>	<b>644,689</b>
<b>Foreign exchange contracts</b>						
Outright spot and forward contracts	219,214	73,954	293,168	259,048	-	259,048
Swap agreements	490,254	-	490,254	313,758	-	313,758
Options	905	-	905	-	-	-
<b>Sub-total</b>	<b>710,373</b>	<b>73,954</b>	<b>784,327</b>	<b>572,806</b>	<b>-</b>	<b>572,806</b>
<b>Total</b>	<b>710,373</b>	<b>725,229</b>	<b>1,435,602</b>	<b>572,806</b>	<b>644,689</b>	<b>1,217,495</b>

## Notes to the Financial Statements For the year ended 31 December 2017

### 18 CAPITAL COMMITMENTS

At 31 December 2017 commitments for capital expenditure amounted to BD 1.00 million (US\$ 2.66 million) [31 December 2016: BD 1.05 million (US\$ 2.79 million)].

### 19 PROPERTY & EQUIPMENT

	Land		Buildings		Furniture and equipment		Total	
	BD '000	US\$ '000	BD '000	US\$ '000	BD '000	US\$ '000	BD '000	US\$ '000
Cost	967	2,572	25,487	67,785	18,163	48,306	44,617	118,663
Accumulated depreciation	-	-	(18,009)	(47,897)	(13,557)	(36,056)	(31,566)	(83,953)
<b>Net book value at 31 December 2017</b>	<b>967</b>	<b>2,572</b>	<b>7,478</b>	<b>19,888</b>	<b>4,606</b>	<b>12,250</b>	<b>13,051</b>	<b>34,710</b>
Net Book value at 31 December 2016	967	2,572	7,869	20,928	3,585	9,533	12,421	33,033

The depreciation charge for 2017 amounted to BD 1.76 million (US\$ 4.68 million) [2016: BD 1.65 million (US\$ 4.39 million)].

The above includes capital work in progress at cost. When the asset is ready to use, the same is capitalised and depreciated in accordance with the Bank's policies.

### 20 SHARE CAPITAL

	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
<b>Authorised share capital</b>				
1,500,000,000 (2015: 1,500,000,000) ordinary shares of 100 fils each	150,000	398,936	150,000	398,936

#### Issued and fully paid share capital

At 1 January 1,159,498,560 ordinary shares of 100 fils each (at 1 Jan 2016: 1,054,089,600 shares of 100 fils each)

Bonus issue (one for ten shares held) \*

At 31 December 1,275,448,416 ordinary shares of 100 fils each (at 31 Dec 2016: 1,159,498,560 shares of 100 fils each) \*\*

\* The shareholders annual general ordinary and extra ordinary meeting for the year 2016 held on 8th March 2017 approved the increase of issued and fully paid capital by the issue of bonus shares at the rate of one additional share for every ten shares held amounts to BD 11.59 million.

\*\* The Board of Directors has proposed to increase the issued and fully paid capital of the Bank to BD 140.30 million by the issue of bonus shares at the rate of one additional share for every ten shares held amounting to BD 12.76 million. These shares will rank pari passu with all other shares for future dividends and distribution. This bonus issue is proposed to be made through utilisation of BD 12.76 million from General Reserve.

#### Employee Share Incentive Scheme

Employee Share Incentive Scheme ("Scheme") was approved at the ordinary general meeting on 11 March 2015 in pursuant to CBB's Sound Remuneration Practices. As a result, 19,104,000 ordinary shares amounting to BD 1.91 million were issued in 2015 to a special purpose vehicle, NBB Hawafiz SPC, to hold the beneficial interest of the shares under the scheme. Shares are allocated to the employees under the scheme. The allocated share under the Scheme are entitled to cash & stock dividend and subject to malus and clawback provisions of the Scheme. As at 31 December 2017 there are 15,659,167 (2016: 16,442,238) shares unallocated. These unallocated shares under the Scheme are deducted from equity.

The distribution of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories is shown below:

	31 December 2017			31 December 2016		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	387,002,253	1,142	30.3%	350,352,486	1,134	30.2%
1% up to less than 5%	186,109,030	8	14.6%	170,657,770	8	14.7%
5% up to less than 10%	-	-	-	-	-	-
10% up to less than 20%	138,787,474	1	10.9%	126,170,432	1	10.9%
20% up to less than 50%	563,549,659	1	44.2%	512,317,872	1	44.2%
More than 50%	-	-	-	-	-	-
<b>Total</b>	<b>1,275,448,416</b>	<b>1,152</b>	<b>100%</b>	<b>1,159,498,560</b>	<b>1,144</b>	<b>100%</b>

The distribution of ordinary shares ownership based on nationality of the shareholder is shown below:

	31 December 2017			31 December 2016		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	1,233,139,708	1,069	96.6%	1,097,510,160	1,029	94.6%
Other GCC countries	42,090,218	74	3.3%	61,196,769	89	5.3%
Others	218,490	9	0.1%	791,631	26	0.1%
<b>Total</b>	<b>1,275,448,416</b>	<b>1,152</b>	<b>100%</b>	<b>1,159,498,560</b>	<b>1,144</b>	<b>100%</b>

44.2% of the Bank's share capital is held by the Bahrain Mumtalakat Holding Co, that is 100% owned by the Government of Bahrain. 10.9% of shares is owned by the Social Insurance Organisation, Kingdom of Bahrain. The rest of the share capital is widely held primarily by the citizens of and entities incorporated in the Kingdom of Bahrain.

### 21 RESERVES

#### a) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The Board of Directors has proposed to the shareholders to appropriate BD 6.4 million from General Reserve to Statutory Reserve.

#### b) General reserve

The reserve has been created in accordance with the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank.

## Notes to the Financial Statements For the year ended 31 December 2017

### c) Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale investments, excluding impairment when the investment is derecognised or impaired. Further, it includes Bank's share of other comprehensive income of associated entities.

### d) Donation and charity reserve

Based on the recommendations of the Board of Directors, upon shareholders' approval an amount is transferred from this reserve. The reserve represents the unutilised amount of the donations and charities approved by the shareholders.

### e) Share premium

Under the Employee Share Incentive Scheme, the Bank has allocated 6,548,574 ordinary shares with a nominal value of BD 4.02 million to the employees, which has resulted in share premium of BD 4.02 million.

## 22 APPROPRIATIONS

The appropriations relating to the year 2016 were approved at the last annual general meeting held on 8 March 2017.

## 23. INTEREST INCOME / INTEREST EXPENSE

### a) INTEREST INCOME

For the year ended 31 December

	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Loans and advances to non banks	38,994	103,707	34,457	91,641
Loans and advances to banks	4,408	11,723	3,403	9,051
Treasury bills	13,619	36,221	11,190	29,761
Placements with banks and other financial institutions	1,390	3,697	1,232	3,277
Investment securities	43,342	115,271	37,697	100,258
Derivative assets held for risk management	340	904	158	420
<b>Total</b>	<b>102,093</b>	<b>271,523</b>	<b>88,137</b>	<b>234,408</b>

### b) INTEREST EXPENSE

For the year ended 31 December

	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Deposits from customers	21,685	57,672	18,688	49,702
Deposits from banks and other financial institutions	6,065	16,130	2,790	7,420
Borrowings under repurchase agreements	530	1,410	180	479
Derivative liabilities held for risk management	744	1,979	489	1,301
<b>Total</b>	<b>29,024</b>	<b>77,191</b>	<b>22,147</b>	<b>58,902</b>

## 24 OTHER INCOME

For the year ended 31 December

	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
<b>a) Fees and commission income</b>				
Fees and commission on loans and advances	11,332	30,138	9,557	25,418
Commission on sale of managed funds	158	420	145	386
Other fees and commission	7,670	20,400	7,083	18,838
Less: fees and commission paid	(5,060)	(13,457)	(4,442)	(11,814)
<b>Sub-total</b>	<b>14,100</b>	<b>37,501</b>	<b>12,343</b>	<b>32,828</b>
<b>b) Other operating income</b>				
Profit on sale of available for sale investments	477	1,269	4,597	12,226
Gain / (loss) on fair value through profit or loss investments	99	263	(114)	(303)
Dividend income	3,170	8,430	4,042	10,750
Profit on exchange dealing and transactions	5,151	13,699	5,249	13,960
Profit on trading securities and derivatives	446	1,186	37	98
Share of profit of associates	3,753	9,981	2,985	7,939
Other income	4,204	11,181	1,744	4,638
<b>Sub-total</b>	<b>17,300</b>	<b>46,009</b>	<b>18,540</b>	<b>49,308</b>
<b>Total other income</b>	<b>31,400</b>	<b>83,510</b>	<b>30,883</b>	<b>82,136</b>

## Notes to the Financial Statements For the year ended 31 December 2017

### 25 STAFF EXPENSES

For the year ended 31 December

	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Salaries, allowances and bonuses	17,120	45,532	18,300	48,670
Social security & gratuity	1,564	4,158	2,058	5,473
Housing & other benefits	2,218	5,897	3,297	8,768
Others	401	1,067	248	660
<b>Total</b>	<b>21,303</b>	<b>56,654</b>	<b>23,903</b>	<b>63,571</b>

### 26 SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

As at 31 December

	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
US Dollar (long position) - unhedged	65,149	173,269	18,344	48,787
UAE Dirhams (long position) - unhedged	1,398	3,718	4,172	11,096
Saudi Riyal (long position) - unhedged	637	1,694	14,251	37,902
Qatari Riyal (long position) - unhedged	6,581	17,503	10,638	28,293

The Bahraini dinar has a fixed rate of exchange against the US dollar.

### 27 RELATED PARTY DISCLOSURES

Certain related parties (major shareholders, directors of the Bank and families and companies of which they are principal owners, key management personnel and associates) were customers of the Bank in the ordinary course of business. The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to him. Significant balances at the reporting date in regard to related parties and transactions during the year with related parties comprised the following:

Amounts in BD '000	Major shareholder and related entities		Directors & key personal management		Associates	
	2017	2016	2017	2016	2017	2016
<b>As at 31 December</b>						
Loans and advances	251,295	186,782	4,230	14,051	38,941	-
Treasury bills, bonds and equities	1,353,797	1,449,642	-	-	51,577	50,076
Customers' deposits	229,162	114,260	30,101	46,561	5,936	4,441
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	92,395	88,785	10,659	5,915	-	-
<b>For the year ended 31 December</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Loans advanced	116,096	5,513	8,479	18,892	38,800	-
Loans repaid	79,602	35,458	14,937	18,499	-	37,661
Net (decrease) / increase in overdrafts	28,019	52,419	(3,363)	8,768	-	-
Treasury bills, bonds and equities purchased	742,229	1,252,829	-	-	-	10,000
Treasury bills, bonds and equities matured/sold	838,074	1,176,932	-	-	-	-
Interest income	59,633	59,306	224	296	749	305
Interest expense	1,625	453	247	392	40	31
Share of profit of associates	-	-	-	-	3,753	2,985
Dividend Income	321	84	-	-	-	-
Directors Remuneration and sitting fees	168	167	275	313	-	-
Short term employee benefits	-	-	3,025	5,485	-	-
Post employment retirement benefits	-	-	248	651	-	-

During the year, impairment provision of BD 6.35 million (US\$ 16.89) [2016: Nil] have been recorded against outstanding balances with related parties.

The Bank qualifies as a government related entity under the definitions provided in the IAS 24 as one of its significant shareholder is government owned. In addition to government exposures reported above, in its normal course of business, the bank provides commercial lending, liquidity management and other banking services to and also avails services from various semi government organizations and government owned companies in the Kingdom of Bahrain.

### 28 ASSETS UNDER ADMINISTRATION

Assets administered on behalf of customers to which the Bank does not have legal title are not included in the statement of financial position. At 31 December 2017, assets under administration amounted to BD 107.79 million (US\$ 286.66 million) [31 December 2016 : BD 113.97 million (US\$ 303.11 million)].



## Notes to the Financial Statements For the year ended 31 December 2017

### 29 GEOGRAPHICAL DISTRIBUTION

Amounts in BD '000	Assets		Liabilities		Contingent liabilities and banking commitments	
	2017	2016	2017	2016	2017	2016
<b>As at 31 December</b>						
GCC	2,930,855	2,881,553	2,531,531	2,474,532	947,412	706,069
U.S.A.	125,627	12,224	26,773	10,375	226,391	260,401
Europe	8,090	54,561	39,126	66,101	540,772	490,002
Rest of the World	36,971	28,763	56,169	11,397	11,379	4,803
<b>Total</b>	<b>3,101,543</b>	<b>2,977,101</b>	<b>2,653,599</b>	<b>2,562,405</b>	<b>1,725,954</b>	<b>1,461,275</b>

### 30 DISTRIBUTION BY SECTOR

Amounts in BD '000	Assets		Liabilities		Contingent liabilities and banking commitments	
	2017	2016	2017	2016	2017	2016
<b>As at 31 December</b>						
Government	1,606,462	1,656,172	443,982	424,687	70,165	87,461
Manufacturing / trading	133,974	116,788	149,748	157,583	73,178	31,689
Banks / financial institutions	605,613	590,067	511,478	492,608	1,517,282	1,269,703
Construction	77,628	82,367	97,882	92,612	35,625	34,804
Personal	422,875	389,941	1,231,679	1,252,287	2,336	494
Others	254,991	141,766	218,830	142,628	27,368	37,124
<b>Total</b>	<b>3,101,543</b>	<b>2,977,101</b>	<b>2,653,599</b>	<b>2,562,405</b>	<b>1,725,954</b>	<b>1,461,275</b>

### 31 CONCENTRATION OF CREDIT RISK

The following is the concentration of credit risk by industry and geographical regions:

#### a) By Industry

Amounts in BD '000	Government		Manufacturing/ trading	Banks/financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries						
<b>As at 31 December 2017</b>								
<b>Assets</b>								
Balances at central banks	-	-	-	88,233	-	-	-	88,233
Treasury bills	409,912	10,011	-	-	-	-	-	419,923
Placements with banks and other financial institutions	-	-	-	174,009	-	-	-	174,009
Loans and advances	219,345	-	123,236	186,350	76,743	422,086	199,090	1,226,850
Investment securities	919,463	31,685	1,883	53,356	-	-	11,521	1,017,908
Interest receivable and other assets	15,908	138	208	5,116	58	892	18,567	40,887
<b>Total assets</b>	<b>1,564,628</b>	<b>41,834</b>	<b>125,327</b>	<b>507,064</b>	<b>76,801</b>	<b>422,978</b>	<b>229,178</b>	<b>2,967,810</b>
<b>Contingent liabilities and banking commitments</b>	<b>70,068</b>	<b>97</b>	<b>66,180</b>	<b>89,544</b>	<b>35,625</b>	<b>1,470</b>	<b>27,368</b>	<b>290,352</b>
<b>Derivatives (notional)</b>	<b>-</b>	<b>-</b>	<b>6,998</b>	<b>1,427,738</b>	<b>-</b>	<b>866</b>	<b>-</b>	<b>1,435,602</b>

Amounts in BD '000	Government		Manufacturing/ trading	Banks/financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries						
<b>As at 31 December 2016</b>								
<b>Assets</b>								
Balances at central banks	-	-	-	89,892	-	-	-	89,892
Treasury bills	476,800	10,002	-	-	-	-	-	486,802
Placements with banks and other financial institutions	-	-	-	160,900	-	-	-	160,900
Loans and advances	191,998	-	109,827	166,322	80,966	389,344	93,469	1,031,926
Investment securities	952,251	9,339	1,888	77,729	263	-	1,876	1,043,346
Interest receivable and other assets	15,778	4	188	4,226	287	597	16,991	38,071
<b>Total assets</b>	<b>1,636,827</b>	<b>19,345</b>	<b>111,903</b>	<b>499,069</b>	<b>81,516</b>	<b>389,941</b>	<b>112,336</b>	<b>2,850,937</b>
<b>Contingent liabilities and banking commitments</b>	<b>87,461</b>	<b>-</b>	<b>31,689</b>	<b>52,208</b>	<b>34,804</b>	<b>494</b>	<b>37,124</b>	<b>243,780</b>
<b>Derivatives (notional)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,217,495</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,217,495</b>

The balances at the end of the year are representative of the position during the year and hence average balances have not been separately disclosed.

The above includes certain exposures to customers / counter parties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures as at 31 December 2017:

Counterparty	Counterparty type	Total Exposure
Counterparty A	Sovereign	1,401,962
Counterparty B	Sovereign	212,997
Counterparty C	Central Bank	184,413
Counterparty D	Sovereign	96,597
Counterparty E	Bank	74,050

## Notes to the Financial Statements For the year ended 31 December 2017

### 31 CONCENTRATION OF CREDIT RISK (Continued.....)

#### (b) By geographical regions :

Amounts in BD '000

As at 31 December 2017	GCC	USA	Europe	Rest of the World	Total
<b>Assets</b>					
Balances at central banks	88,233	-	-	-	88,233
Treasury bills	419,923	-	-	-	419,923
Placements with banks and other financial institutions	163,746	3,917	5,079	1,267	174,009
Loans and advances	1,116,968	94,981	-	14,901	1,226,850
Investment securities	972,644	24,557	-	20,707	1,017,908
Interest receivable and other assets	35,816	2,172	2,805	94	40,887
<b>Total assets</b>	<b>2,797,330</b>	<b>125,627</b>	<b>7,884</b>	<b>36,969</b>	<b>2,967,810</b>
<b>Contingent liabilities and banking commitments</b>	<b>264,149</b>	<b>67</b>	<b>22,946</b>	<b>3,190</b>	<b>290,352</b>
<b>Derivatives (notional)</b>	<b>683,263</b>	<b>226,324</b>	<b>517,826</b>	<b>7,189</b>	<b>1,434,602</b>

Amounts in BD '000

As at 31 December 2016	GCC	USA	Europe	Rest of the World	Total
<b>Assets</b>					
Balances at central banks	89,892	-	-	-	89,892
Treasury bills	486,802	-	-	-	486,802
Placements with banks and other financial institutions	135,549	1,596	23,092	663	160,900
Loans and advances	996,457	-	14,863	20,606	1,031,926
Investment securities	1,011,967	10,598	13,461	7,320	1,043,346
Interest receivable and other assets	34,758	30	3,146	137	38,071
<b>Total assets</b>	<b>2,755,425</b>	<b>12,224</b>	<b>54,562</b>	<b>28,726</b>	<b>2,850,937</b>
<b>Contingent liabilities and banking commitments</b>	<b>218,489</b>	<b>86</b>	<b>21,046</b>	<b>4,159</b>	<b>243,780</b>
<b>Derivatives (notional)</b>	<b>487,580</b>	<b>260,315</b>	<b>468,956</b>	<b>644</b>	<b>1,217,495</b>

## Notes to the Financial Statements For the year ended 31 December 2017

### 32 INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively, positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions.

Assets and liabilities are placed in maturity buckets based on the remaining period to the contractual repricing or maturity dates, whichever is earlier. Customers' deposits for which no specific contractual maturity or repricing dates exist are placed in ladders based on the Bank's judgment concerning their most likely repricing behavior.

The repricing profile and effective interest rate of the various asset and liability categories are as follows:

Amounts in BD '000	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
<b>As at 31 December 2017</b>								
<b>Assets</b>								
Cash and balances at central banks	-	-	-	-	-	-	107,039	107,039
Treasury bills	2.96%	134,447	145,821	139,655	-	-	-	419,923
Placements with banks and other financial institutions	1.54%	158,923	-	-	-	-	15,086	174,009
Loans and advances	3.78%	529,742	31,646	78,649	492,099	94,714	-	1,226,850
Investment securities	4.40%	47,540	-	55,408	616,970	297,983	49,399	1,067,300
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	93,371	93,371
Property and equipment	-	-	-	-	-	-	13,051	13,051
<b>Total assets</b>		<b>870,652</b>	<b>177,467</b>	<b>273,712</b>	<b>1,109,069</b>	<b>392,697</b>	<b>277,946</b>	<b>3,101,543</b>
<b>Liabilities and equity</b>								
Due to banks and other financial institutions	1.65%	329,922	-	-	-	-	54,085	384,007
Borrowings under repurchase agreements	1.81%	67,829	-	-	-	-	-	67,829
Customer deposits	1.11%	695,232	167,185	269,366	48,400	-	985,031	2,165,214
Interest payable and other liabilities	-	-	-	-	-	-	36,579	36,579
Equity	-	-	-	-	-	-	447,914	447,914
<b>Total liabilities and equity</b>		<b>1,092,983</b>	<b>167,185</b>	<b>269,366</b>	<b>48,400</b>	<b>-</b>	<b>1,523,609</b>	<b>3,101,543</b>
<b>On-balance sheet Interest rate sensitivity gap</b>		<b>(222,331)</b>	<b>10,282</b>	<b>4,346</b>	<b>1,060,669</b>	<b>392,697</b>	<b>(1,245,663)</b>	<b>-</b>
<b>Off-balance sheet Interest rate gap</b>		<b>651,275</b>	<b>-</b>	<b>-</b>	<b>(378,111)</b>	<b>(273,164)</b>	<b>-</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>428,944</b>	<b>439,226</b>	<b>443,572</b>	<b>1,126,130</b>	<b>1,245,663</b>	<b>-</b>	<b>-</b>

## Notes to the Financial Statements For the year ended 31 December 2017

### 32 INTEREST RATE RISK (Continued.....)

Amounts in BD '000	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
As at 31 December 2016								
<b>Assets</b>								
Cash and balances at central banks	-	-	-	-	-	-	102,990	102,990
Treasury bills	2.66%	162,816	140,583	183,403	-	-	-	486,802
Placements with banks and other financial institutions	0.93%	133,132	15,416	-	-	-	12,352	160,900
Trading securities	-	349	-	-	-	-	-	349
Loans and advances	3.47%	545,398	36,882	47,305	321,624	80,717	-	1,031,926
Investment securities	4.07%	19,740	-	134,781	606,643	281,879	49,880	1,092,923
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	88,790	88,790
Property and equipment	-	-	-	-	-	-	12,421	12,421
<b>Total assets</b>		<b>861,435</b>	<b>192,881</b>	<b>365,489</b>	<b>928,267</b>	<b>362,596</b>	<b>266,433</b>	<b>2,977,101</b>
<b>Liabilities and equity</b>								
Due to banks and other financial institutions	1.29%	299,664	-	-	-	-	74,150	373,814
Borrowings under repurchase agreements	1.45%	64,284	-	-	-	-	-	64,284
Customer deposits	0.92%	985,054	180,288	51,430	618	-	870,958	2,088,348
Interest payable and other liabilities	-	-	-	-	-	-	35,959	35,959
Equity	-	-	-	-	-	-	414,696	414,696
<b>Total liabilities and equity</b>		<b>1,349,002</b>	<b>180,288</b>	<b>51,430</b>	<b>618</b>	<b>-</b>	<b>1,395,763</b>	<b>2,977,101</b>
On-balance sheet Interest rate sensitivity gap		(487,567)	12,593	314,059	927,649	362,596	(1,129,330)	-
Off-balance sheet Interest rate gap		644,689	-	-	(365,734)	(278,955)	-	-
Cumulative interest rate sensitivity gap		157,122	169,715	483,774	1,045,689	1,129,330	-	-

### 33. MARKET RISK

a) The Bank uses the Standardised Method for allocating market risk capital.

The following table shows the capital charges as at 31 December:

Risk Type	2017	2016
Amounts in BD '000		
Interest Rate Risk	1,259	1,077
Equities Risk	-	56
Foreign Exchange Risk	31	18
<b>Total minimum capital required for market risk</b>	<b>1,290</b>	<b>1,151</b>
Multiplier	12.5	12.5
<b>Market Risk weighted exposure under the Standardized Method</b>	<b>16,125</b>	<b>14,388</b>

b) The principal risk to which Bank's portfolio that is exposed is the risk of loss from fluctuations in future cash flows of financial instruments because of changes in market interest rates. The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200bps increase/ decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

Amounts in BD '000	2017		2016	
	200 bps parallel increase	200 bps parallel decrease	200 bps parallel increase	200 bps parallel decrease
At 31 December	9,950	(9,950)	10,961	(10,961)
Average for the year	10,494	(10,494)	9,836	(9,836)
Minimum for the year	8,618	(8,618)	4,539	(4,539)
Maximum for the year	12,161	(12,161)	12,110	(12,110)

c) The Bank holds investments in quoted equities as part of the available-for-sale investments. Equity risk is the potential adverse impact due to movements in individual equity prices or general market movements in stock markets. The Bank manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. The use of derivatives to manage interest rate risk is described in note 17.

## Notes to the Financial Statements For the year ended 31 December 2017

### 34 SEGMENT INFORMATION

For management purposes, the Bank is organised into the following main strategic business units (SBUs) - Personal Banking, Bahrain Business Banking and Treasury & International Banking. These SBUs are the basis on which the Bank reports its operating segment information.

The Personal Banking and Bahrain Business Banking SBUs provide various banking products and services to the Bank's customers in Bahrain. The SBUs are differentiated based on their respective customer segments. Personal Banking caters to individuals. Bahrain Business Banking caters to governments, corporates and commercial enterprises.

The Treasury & International Banking SBU has the overall responsibility of managing the Bank's liquidity, interest rate, foreign exchange and market risk and provide various banking products and services to Bank's customers outside Bahrain.

Financial information about the operating segments is presented in the following table:

Amounts in BD '000	Personal Banking		Bahrain Business Banking		Treasury & International Banking		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>For the year ended 31 December</b>								
Interest income	20,251	20,471	15,773	12,073	66,069	55,593	102,093	88,137
Interest expense	(9,925)	(6,190)	(11,439)	(12,226)	(7,661)	(3,731)	(29,025)	(22,147)
Inter-segment interest income/(expense)	14,345	9,613	11,728	11,787	(26,073)	(21,400)	-	-
Net interest income	24,671	23,894	16,062	11,634	32,335	30,462	73,068	65,990
Other income	9,641	8,846	3,814	2,784	17,943	19,253	31,398	30,883
<b>Operating income</b>	<b>34,312</b>	<b>32,740</b>	<b>19,876</b>	<b>14,418</b>	<b>50,278</b>	<b>49,715</b>	<b>104,466</b>	<b>96,873</b>
<b>Result</b>	<b>19,878</b>	<b>17,495</b>	<b>1,910</b>	<b>5,775</b>	<b>41,944</b>	<b>37,537</b>	<b>63,732</b>	<b>60,807</b>
Unallocated corporate expenses							(2,719)	(2,572)
<b>Profit for the year</b>							<b>61,013</b>	<b>58,235</b>

#### Other information

Segment assets	447,374	430,080	588,602	480,777	2,065,567	2,066,244	3,101,543	2,977,101
Segment liabilities & Equity	1,181,144	975,923	1,077,621	1,105,549	842,778	895,629	3,101,543	2,977,101
Depreciation for the year	508	529	325	325	369	252	1,202	1,106
Provision for impaired assets	1,023	1,713	9,287	(155)	161	2,982	10,471	4,540

During 2017, the total capital expenditure amounted to BD 2.39 million (US\$ 6.36 million) [ 2016: BD 1.56 million (US\$ 4.15 million)].

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Bank's capital has been distributed among the segments in proportion to their total assets employed. Expenses of departments whose services are jointly utilised by more than one segment have been allocated to the relevant segments on an appropriate basis.

Inter-segment interest income and expense represent the interest cost on the excess funds which are automatically transferred by all the other business segments to Treasury and International Banking. The interest rate for calculating interest of such transfers is set once every three months separately for local and foreign currency and is based on the weighted average of market rates for various maturities for each currency.

While the Bank conducts its banking business primarily through its Strategic Business Units, it operates from various geographical locations:

- (i) Domestic operations through its network of branches in Kingdom of Bahrain and
- (ii) Overseas operations through its branches in the United Arab Emirates and Saudi Arabia.

Financial information about geographical locations is presented in the following table:

Amounts in BD '000	Domestic		Overseas		Total	
	2017	2016	2017	2016	2017	2016
<b>For the year ended 31 December</b>						
Operating income	101,641	94,339	2,826	2,534	104,467	96,873
Profit for the year	60,310	58,596	703	(361)	61,013	58,235
<b>At 31 December</b>						
Segment assets	3,020,115	2,912,887	81,428	64,214	3,101,543	2,977,101
Segment liabilities & equity	3,020,115	2,912,887	81,428	64,214	3,101,543	2,977,101

Notes to the Financial Statements For the year ended 31 December 2017

35. MATURITY PROFILE AND LIQUIDITY RISK

a) MATURITY PROFILE

The table below shows the maturity profile of total assets and liabilities based on contractual terms.

Amounts in BD '000 As at 31 December 2017	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
<b>Assets</b>									
Cash and balances at central banks	107,039	-	-	-	-	-	-	-	107,039
Treasury bills	134,447	145,821	139,655	-	-	-	-	-	419,923
Placements with banks and other financial institutions	174,009	-	-	-	-	-	-	-	174,009
Loans and advances	351,694	75,168	110,935	285,549	273,759	99,549	28,642	1,554	1,226,850
Investment securities	39,770	1,814	55,408	300,460	322,454	252,963	13,207	81,224	1,067,300
Investment in associates, Interest receivable, other assets and property & equipment	4,183	150	555	7,804	5,889	4,967	228	82,646	106,422
<b>Total assets</b>	<b>811,142</b>	<b>222,953</b>	<b>306,553</b>	<b>593,813</b>	<b>602,102</b>	<b>357,479</b>	<b>42,077</b>	<b>165,424</b>	<b>3,101,543</b>
<b>Liabilities and equity</b>									
Due to banks and other financial institutions	384,007	-	-	-	-	-	-	-	384,007
Borrowings under repurchase agreements	67,829	-	-	-	-	-	-	-	67,829
Customer deposits	1,680,230	167,191	269,366	48,427	-	-	-	-	2,165,214
Interest payable & other liabilities	20,521	13,825	671	1,562	-	-	-	-	36,579
Equity	-	-	-	-	-	-	-	447,914	447,914
<b>Total liabilities and equity</b>	<b>2,152,587</b>	<b>181,016</b>	<b>270,037</b>	<b>49,989</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>447,914</b>	<b>3,101,543</b>

Amounts in BD '000 As at 31 December 2016	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
<b>Assets</b>									
Cash and balances at central banks	102,990	-	-	-	-	-	-	-	102,990
Treasury bills	162,816	140,583	183,403	-	-	-	-	-	486,802
Placements with banks and other financial institutions	145,484	15,416	-	-	-	-	-	-	160,900
Trading securities	349	-	-	-	-	-	-	-	349
Loans and advances	344,888	66,656	55,539	302,899	158,793	85,451	16,760	940	1,031,926
Investment securities	10,669	1,820	134,781	283,369	330,507	251,126	18	80,633	1,092,923
Investment in associates, Interest receivable, other assets and property & equipment	3,343	58	1,988	6,289	5,073	5,668	639	78,153	101,211
<b>Total assets</b>	<b>770,539</b>	<b>224,533</b>	<b>375,711</b>	<b>592,557</b>	<b>494,373</b>	<b>342,245</b>	<b>17,417</b>	<b>159,726</b>	<b>2,977,101</b>
<b>Liabilities and equity</b>									
Due to banks and other financial institutions	373,814	-	-	-	-	-	-	-	373,814
Borrowings under repurchase agreements	64,284	-	-	-	-	-	-	-	64,284
Customer deposits	1,855,814	180,462	51,430	642	-	-	-	-	2,088,348
Interest payable & other liabilities	23,925	736	560	10,738	-	-	-	-	35,959
Equity	28,988	-	-	-	-	-	-	385,708	414,696
<b>Total liabilities and equity</b>	<b>2,346,825</b>	<b>181,198</b>	<b>51,990</b>	<b>11,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>385,708</b>	<b>2,977,101</b>

b) LIQUIDITY RISK

The table below shows the undiscounted cash flows of the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Bank's expected cash flows on these instruments vary significantly from this analysis; for example customers are expected to maintain stable or increased balances in demand deposits and not all undrawn loan commitments are expected to be drawn down immediately. For derivatives that have simultaneous cross settlement (e.g. forward exchange contracts and currency swaps) the gross nominal undiscounted cash inflow/outflow are considered while in the case of derivatives that are net settled the net amounts have been considered.

Amounts in BD '000 As 31 December 2017	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
<b>Non derivative liabilities</b>							
Due to banks and other financial institutions	384,007	385,633	385,633	-	-	-	-
Borrowings under repurchase agreements	67,829	68,032	68,032	-	-	-	-
Customers' deposits	2,165,214	2,174,728	1,682,429	162,562	276,193	53,544	-
<b>Total non derivative liabilities</b>	<b>2,617,050</b>	<b>2,628,393</b>	<b>2,136,094</b>	<b>162,562</b>	<b>276,193</b>	<b>53,544</b>	<b>-</b>
<b>Derivative liabilities</b>							
Trading: outflow	-	782,276	533,812	183,100	65,292	73	-
Trading: inflow	900	783,422	534,297	183,276	65,775	74	-
<b>Total derivative liabilities</b>	<b>900</b>	<b>1,565,698</b>	<b>1,068,109</b>	<b>366,376</b>	<b>131,067</b>	<b>147</b>	<b>-</b>
<b>Banking commitments</b>							
Financial guarantees	-	(47,585)	(6,948)	(250)	(522)	(39,865)	-

## Notes to the Financial Statements For the year ended 31 December 2017

### b) LIQUIDITY RISK (Continued.....)

Amounts in BD '000 As 31 December 2016	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
<b>Non derivative liabilities</b>							
Due to banks and other financial institutions	373,814	374,621	374,621	-	-	-	-
Borrowings under repurchase agreements	64,284	64,480	64,480	-	-	-	-
Customers' deposits	2,088,348	2,099,112	1,864,797	180,006	53,651	658	-
<b>Total non derivative liabilities</b>	<b>2,526,446</b>	<b>2,538,213</b>	<b>2,303,898</b>	<b>180,006</b>	<b>53,651</b>	<b>658</b>	<b>-</b>
<b>Derivative liabilities</b>							
Trading: outflow	-	(570,781)	(177,580)	(288,673)	(104,528)	-	-
Trading: inflow	1,576	572,806	178,135	289,196	105,475	-	-
<b>Total derivative liabilities</b>	<b>1,576</b>	<b>2,025</b>	<b>555</b>	<b>523</b>	<b>947</b>	<b>-</b>	<b>-</b>
Banking commitments	-	-	(58,195)	-	-	-	58,195
Financial guarantees	-	(46,404)	(6,089)	(79)	(361)	(39,875)	-

### 36 RETIREMENT BENEFIT COSTS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme in Bahrain and its overseas branches are recognized as an expense in the income statement. The Bank's contribution for 2017 amounted to BD 0.94 million (US\$ 2.51 million) [2016: BD 0.87 million (US\$ 2.31 million)].

Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws. The movement in the provision for leaving indemnities during the year is as follows:

#### Provision for leaving indemnities

Movements during the year	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
At 1 January	3,099	8,376	4,994	13,497
Charge for the year	588	1,564	2,797	7,439
Paid during the year	(1,425)	(3,790)	(4,692)	(12,479)
<b>At 31 December</b>	<b>2,262</b>	<b>6,150</b>	<b>3,099</b>	<b>8,457</b>

The Bank has a voluntary Staff Savings Scheme for Bahraini employees. The employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis to the Scheme. The Scheme is managed and administrated by a board of trustees who are the employees of the Bank. The Bank's contribution to the Scheme for 2017 amounted to BD 0.83 million (US\$ 2.22 million) [2016: BD 0.87 million (US\$ 2.31 million)]. As at 31 December 2017, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the Scheme, the net balance of the Scheme, amounted to BD 9.96 million (US\$ 26.49 million) [31 December 2016: BD 12.03 million (US\$ 31.99 million)].

### 37 LEGAL CLAIMS

As at 31 December 2017, legal suits pending against the Bank aggregated to BD 1.23 million (US\$ 3.26 million) [31 December 2016: BD 0.53 million (US\$ 1.41 million)]. Based on the opinion of the Bank's legal advisors about final judgment on these suits, adequate provision as assessed by management is maintained.

### 38 EARNINGS AND DIVIDEND PER SHARE

	2017		2016	
	BD millions	US\$ millions	BD millions	US\$ millions
Profit for the year	61.01	162.25	58.24	146.97
Dividend proposed at 25% (2016: 25 %)	31.89	84.81	28.99	77.10
<b>Weighted average number of shares issued (millions)</b>				
Ordinary shares as at 1 January	1,159.5	1,159.5	1,159.5	1,159.5
Effect of bonus shares issued during 2017	116.0	116.0	116.0	116.0
Less unallocated employee shares	(15.7)	(15.7)	(16.4)	(16.4)
<b>Weighted average number of ordinary shares (millions) as at 31 December</b>	<b>1,259.8</b>	<b>1,259.8</b>	<b>1,259</b>	<b>1,259</b>
Earnings per share	48.4 fils	13 cents	46.3 fils	12 cents
Dividend per share	25 fils	7 cents	23 fils	6 cents

Diluted earnings per share is same as basic earnings per share as the Bank does not have any potential dilutive instruments in issue.

## Notes to the Financial Statements For the year ended 31 December 2017

### 39 ACCOUNTING CLASSIFICATION

a) The following table provides disclosure of the accounting classification for assets and liabilities:

Amounts in BD '000 As 31 December 2017	Trading	Designated at fair value through profit or loss	Loans and receivables	Available for sale	Others at amortised cost	Total carrying amount
Cash and balances at central banks	-	-	107,039	-	-	107,039
Treasury bills	-	-	419,923	-	-	419,923
Placements with banks and other financial institutions	-	-	174,009	-	-	174,009
Loans and advances	-	-	1,226,850	-	-	1,226,850
Investment securities	-	249	-	1,067,051	-	1,067,300
Interest receivable & other assets	-	-	41,794	-	-	41,794
<b>Total assets</b>	-	249	1,969,615	1,067,051	-	3,036,915
Due to banks and other financial institutions	-	-	-	-	384,007	384,007
Borrowings under repurchase agreements	-	-	-	-	67,829	67,829
Customer deposits	-	-	-	-	2,165,214	2,165,214
Interest payable & other liabilities	-	-	-	-	27,224	27,224
<b>Total liabilities</b>	-	-	-	-	2,644,274	2,644,274

Amounts in BD '000 As 31 December 2016	Trading	Designated at fair value through profit or loss	Loans and receivables	Available for sale	Others at amortised cost	Total carrying amount
Cash and balances at central banks	-	-	102,990	-	-	102,990
Treasury bills	-	-	486,802	-	-	486,802
Placements with banks and other financial institutions	-	-	160,900	-	-	160,900
Trading securities	349	-	-	-	-	349
Loans and advances	-	-	1,031,926	-	-	1,031,926
Investment securities	-	303	-	1,092,620	-	1,092,923
Interest receivable & other assets	-	-	38,714	-	-	38,714
<b>Total assets</b>	349	303	1,821,332	1,092,620	-	2,914,604
Due to banks and other financial institutions	-	-	-	-	373,814	373,814
Borrowings under repurchase agreements	-	-	-	-	64,284	64,284
Customer deposits	-	-	-	-	2,088,348	2,088,348
Interest payable & other liabilities	-	-	-	-	24,893	24,893
<b>Total liabilities</b>	-	-	-	-	2,551,339	2,551,339

#### 39 b) Fair value hierarchy

The Bank measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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

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

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

All financial instruments other than those disclosed in table below are classified as level 2.

(i) Loans and advances: The fair value approximates its carrying value since the majority of loans are floating rate loans which have been disbursed at market rates, and adequate provisions have been taken for those loans with doubt as to collectability.

(ii) Customers' deposits: The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is deemed to equal the amount repayable on demand, which is represented by the carrying value of the deposits. For interest bearing fixed maturity deposits, the Bank estimates that fair value will approximate their book value as the majority of deposits are of short term nature and as all deposits are at market rates.

(iii) Other financial assets and liabilities: The fair value is considered to approximate their book values due to their short term nature and negligible probability of credit losses.



## Notes to the Financial Statements For the year ended 31 December 2017

### 39 b) Fair value hierarchy (Continued.....)

The table below analyses financial assets and liabilities carried at fair value, by valuation method.

<i>Amount in BD 000's</i>	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>At 31 December</b>								
Financial assets held for trading	-	-	-	-	349	-	-	349
Financial assets designated at fair value through profit or loss:								
Managed Funds	-	249	-	249	-	303	-	303
Available for sale financial assets:								
Debt securities	332,463	685,445	-	1,017,908	320,614	722,429	-	1,043,043
Equity securities	38,274	-	10,869	49,143	39,245	-	10,332	49,577
Derivative financial assets	-	4,179	-	4,179	-	3,455	-	3,455
<b>Total</b>	<b>370,737</b>	<b>689,873</b>	<b>10,869</b>	<b>1,071,479</b>	<b>360,208</b>	<b>726,187</b>	<b>10,332</b>	<b>1,096,727</b>
<b>Derivative financial liabilities</b>	<b>-</b>	<b>1,115</b>	<b>-</b>	<b>1,115</b>	<b>-</b>	<b>719</b>	<b>-</b>	<b>719</b>

The following table analyses the movement in Level 3 financial assets during the year. There are no transfers between level 1, level 2 and level 3 of the fair value hierarchy.

<i>Amount in BD 000's</i>	Available for sale financial assets	
	2017	2016
<b>At 1 January</b>	<b>10,332</b>	<b>12,198</b>
Total gains/(losses):		
in income statement	-	(41)
in other comprehensive income	537	(467)
Purchases	-	-
Settlements	-	(1,358)
Transfers into/(out) of Level 3	-	-
<b>At 31 December</b>	<b>10,869</b>	<b>10,332</b>
<b>Total gain/(loss) for the year included in income statement for assets/liabilities held at 31 December</b>	<b>-</b>	<b>(41)</b>

Level 3 comprises unquoted equity investments classified as available for sale which are measured at their net asset values based on the latest financial statements issued by the investee. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category financial assets is assessed as not significant to the other comprehensive income and total equity.

### 40 AVERAGE BALANCES

The following are average daily balances for full year :

	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Total assets	3,007,916	7,999,777	2,940,359	7,820,104
Total liabilities	2,581,969	6,866,939	2,579,681	6,860,854
Total equity	425,947	1,132,838	360,678	959,250
Contingent liabilities and undrawn loan commitments	243,926	648,739	210,614	560,144

## Notes to the Financial Statements For the year ended 31 December 2017

### 41 CAPITAL ADEQUACY

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, United Arab Emirates and Saudi Arabia.

The capital adequacy ratio has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

The details of the Bank's capital adequacy calculations are shown below:

Based on year end balances	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Common equity (CET1)	434,077	1,154,460	402,087	1,069,380
Additional tier 1	-	-	-	-
Total common equity tier 1 (CET)	434,077	1,154,460	402,087	1,069,380
Tier 2	12,466	33,154	12,381	32,928
<b>Total capital base</b>	<b>446,543</b>	<b>1,187,614</b>	<b>414,468</b>	<b>1,102,308</b>
<b>Risk weighted exposure:</b>				
Credit risk	1,039,852	2,765,564	990,494	2,634,293
Market risk	16,125	42,886	14,388	38,266
Operational risk	174,863	465,061	166,100	441,755
<b>Total risk weighted exposure</b>	<b>1,230,840</b>	<b>3,273,511</b>	<b>1,170,982</b>	<b>3,114,314</b>
<b>CET 1 ratio</b>		<b>35.3%</b>		<b>34.3%</b>
<b>Total capital adequacy ratio</b>		<b>36.3%</b>		<b>35.4%</b>

Based on average balances	2017		2016	
	BD '000	US\$ '000	BD '000	US\$ '000
Common equity (CET1)	413,643	1,100,114	351,329	934,386
Additional tier 1	-	-	-	-
Total common equity tier 1 (CET)	413,643	1,100,114	351,329	934,386
Tier 2	12,120	32,234	12,461	33,141
<b>Total capital base</b>	<b>425,763</b>	<b>1,132,348</b>	<b>363,790</b>	<b>967,527</b>
<b>Risk weighted exposure:</b>				
Credit risk	983,275	2,615,093	1,008,990	2,683,484
Market risk	25,844	68,734	18,375	48,870
Operational risk	168,291	447,582	161,779	430,263
<b>Total risk weighted exposure</b>	<b>1,177,410</b>	<b>3,131,409</b>	<b>1,189,144</b>	<b>3,162,617</b>
<b>CET 1 ratio</b>		<b>35.1%</b>		<b>29.5%</b>
<b>Total capital adequacy ratio</b>		<b>36.2%</b>		<b>30.6%</b>

### 42 DEPOSIT PROTECTION SCHEME

Deposits held with the Bank's Bahrain operations are covered by the regulation protecting Deposits and Unrestricted Investment Accounts 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 concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

### 43 COMPARATIVES

The corresponding figures have been regrouped where necessary to conform with the current year's presentation. The regrouping did not affect previously reported profit for the year or total equity of the Bank.