بنك البحرين الإسلامي BisB

JOIN... THE **FUTURE** OF **BANKING**

ANNUAL REPORT 2017

WE ARE COMMITTED TO DELIVER TO OUR CUSTOMERS THE MOST EFFICIENT AND SIMPLIFIED MEANS OF TRANSACTING THEIR BANKING BUSINESS.

WE DEDICATE OURSELVES TO ENSURING OUR TRADITIONAL SERVICE ETHOS COMBINES WITH THE CONTINUING ENHANCEMENTS OF A FAST-MOVING DIGITAL WORLD.

WE ACKNOWLEDGE THAT YOUR SUCCESS IS OUR SUCCESS.

Overview

Business Review

Financial Statements

Bahrain Islamic Bank

Diplomatic Area
P.O. Box 5240, Manama, Kingdom of Bahrain
Tel: (+973) 17 546 111
Fax: (+973) 17 535 808
Email: corporate.communications@bisb.com
www.bisb.com

Licensed as an Islamic Retail Bank by the Central Bank of Bahrain

His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister

Corporate Profile

Incorporated in 1979 as the first Islamic bank in the Kingdom of Bahrain, and the fourth in the GCC. Bahrain Islamic Bank (BisB) has played a pivotal role in the development of the Islamic banking industry and the Kingdom's economy.

BRANCHES

4

FINANCIAL MALLS

4

ATMS

51

The Bank operates under an Islamic Retail banking license from the Central Bank of Bahrain and is listed on the Bahrain Bourse.

At the end of 2017, the Bank's paid up capital was BD 101 million, while total assets stood at BD 1,229 million. The Bank's modern branch network comprises 4 branches, 4 innovative financial malls, and 51 ATMs located throughout the Kingdom. A steadfast focus on continuous innovation, strong corporate governance and risk management, employee development, and the use of state of the art technology to deliver superior customer service, has cemented Bahrain Islamic Bank's position as the leading Sharia'a – compliant Bank.

OUR VISION

To be the preferred Islamic Financial Partner going beyond boundaries to grow together.

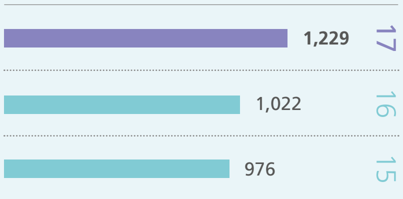
OUR MISSION

Customers	Exceed their expectations and build loyalty.
Employees	Nurturing and retaining talent.
Shareholders	Maximising consistent returns.
Community	Honouring our social commitment to society.

Financial Highlights

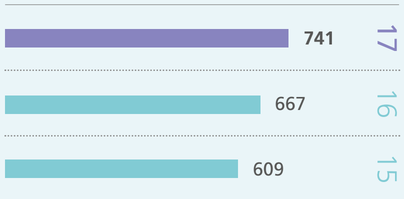
Total Asset
BD Millions

1,229m



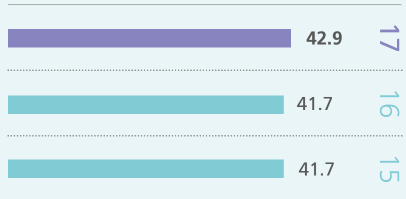
Total Islamic Financing
BD Millions

741m



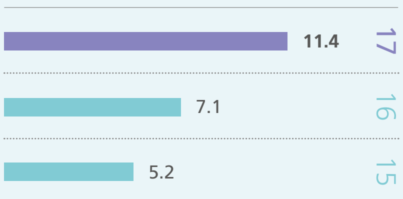
Total Operating Income
BD Millions

42.9m



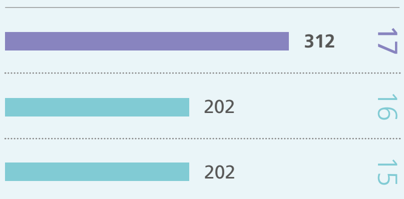
Investors' Share in Income
BD Millions

11.4m



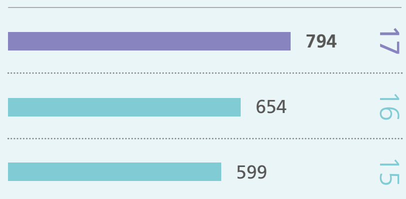
Investments
BD Millions

312m



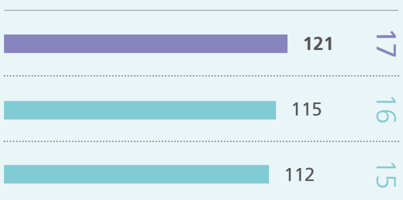
Unrestricted Investment Accounts
BD Millions

794m



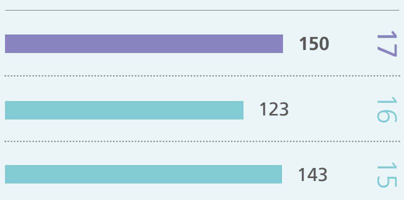
Book Value Per Share
Bahraini fils

121 fils



Share Price
Bahraini fils

150 fils



Operational Highlights

1

Retail Banking Division – Customer-Centric Focus

An excellent year of consolidation saw BisB's Retail Banking division experience satisfactory expansion in all areas of its consumer business, with credit card growth leading the field. The continued enhancement of the Bank's range of customer service offerings underpins the Bank's customer-centric strategy. Significant growth was achieved in financing asset products, and in customer deposits.

2

IT Infrastructure – Digitization Support

As the leader of the Bank's digitization transformation strategy, IT Department has made enormous progress in the delivery of the infrastructure platforms to support the improved offerings to customers. The launch of the Retail Banking division's 'BisB Digital' program has catalyzed the migration of customers to online, internet and mobile apps banking.

3

Financial Performance

BisB's prudent financial management reflected strong growth of 11% in financing assets and a robust 22% increase in liabilities. Continued focus on management of the portfolio resulted in a considerably reduced level of non-performing assets.

4

Brand, Marketing, and Corporate Communications - Revamp

In the latter part of 2017, BisB revamped its approach to the disciplines of highlighting its brand; introduced a keener emphasis on marketing profile; and realigned its corporate communications linkage, both internally and with its external business partners.

5

Corporate and Institutional Banking – Transaction Banking Introduced

Corporate and Institutional Banking division performed well in 2017, with asset growth of 29% and deposits by 59%. The division initiated the Bank's successful first Repo transaction, and leveraged the Sukuk portfolio, lowering the aggregate cost of funds to BisB. The introduction of the Bank's Transactional Banking program heralded the launch of the cash management and trade finance platform.

6

Enhanced Customer experience

Retail Banking Group's successful launch of its 'BisB Digital' program, transforms the ability to offer customers state-of-the-art consumer banking services through online, internet and mobile apps. The introduction of Corporate and Institutional Banking division's Transaction Banking program broadens the Bank's ability to further serve its corporate clients.

Board of Directors Report

Financial technology (FinTech) has become an integral part of the banking business.

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

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

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

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

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

NET PROFIT FOR THE YEAR

BD 10.1m

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

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

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

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

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

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

Dr. Esam Abdulla Fakhro
Chairman of the Board

BisB is gearing towards a digital world by investing in technology, introducing new e-payment products to be delivered through the Bank's recently launched best-in-class mobile banking.

Board of Directors

1. Dr. Esam Abdulla Fakhro
Chairman

Non-Executive & Non-Independent Director
Appointed on 23 March 2016

Dr. Esam Fakhro is a holder of PhD Degree in Mechanical Engineering from London University. He was awarded the Bahrain Medal – FirstClass. He is also a member of the Supreme Council for Education Development, and a member of the board of Trustees of AMA International University. Dr. Fakhro was a former member of the Economic Development Board. Previously, he chaired the Aluminum Bahrain Co. (ALBA), in addition to chairing the Bahrain Chamber of Commerce & Industry, and the Federation of GCC Chambers. Dr. Fakhro was a former member of Mumtalakat Currently, he chairs Abdullah Yousif Fakhro & Sons Group in the field of transport and electronics, as well as foods and financial services. Dr. Fakhro is also the Chairman of the Board of Directors of the Bahrain Cinema Company In addition, he assumes the post of the Deputy Chairman of National Bank of Bahrain, and the Qatar Bahrain Cinema Company and Vox Cineco. He is also a member of the Board of Directors of Trafco and Bahrain Livestock Company.

2. Brigadier Ebrahim Abdullah Al-Mahmoud
Vice Chairman of the Board of Directors

Non-executive and non-independent member
He was appointed on 28 May 2017

Brigadier Ebrahim Al-Mahmoud currently serves as CFO of Bahrain Defence Force (BDF) after having held many positions, such as: Director of Military Consumer Association, Head of Internal Audit Division, Head of Financial Control Division and Assistant Financial Controller. Brigadier Ebrahim Abdullah Al-Mahmoud is the Vice Chairman of Bahrain Aluminum Extrusion Company (Balexco), a Board Member of the Military Pension Fund and the Military Consumer Association. Brigadier Ebrahim Al-Mahmoud is a certified Arab accountant and holds a master's degree in public administration from Portland State University, USA, and a B.Sc. in Economics from the University of Kuwait. In addition to his participation in many training courses in the areas of management, leadership and development, and has a professional experience of more than 37 years.

3. Mr. Talal Ali Al Zain
Board Member

Non-Executive & Independent Director
Elected on 23 March 2016

Mr. Talal Ali Al Zain was the Chief Executive Officer of PineBridge Investments Middle East BSC (c), and Co-Head of Alternative Investments at PineBridge Investments. Prior to this, he was Board Member and CEO of Bahrain Mumtalakat Holding Company; having previously spent 18 years with Investcorp Bank as Managing Director and Co- Head of Placement & Relationship Management. Talal was Vice President of Private Banking International and Head of Investment Banking Middle East with Chase Manhattan Bank; as well as a Corporate Banker with Citibank Bahrain. Talal is a Board Member of Alubaf Arab International Bank. He previously chaired and served as a board member on many corporations including the Bahrain Association of Banks, McLaren, the Bahrain Economic Development Board, Gulf Air, and the Bahrain International Circuit. He holds an MBA in Business Administration (majoring in Finance) from Mercer University, Atlanta, USA; a BA in Business Administration (majoring in Accounting) from Oglethorpe University, Atlanta, USA and attended the Management Development Program at Harvard Business School.

4. Mr. Khalid Yousif Abdul Rahman
Board Member

Non-Executive & Non-Independent Director
Appointed on 23 March 2016

Mr. Khalid Yousif Abdul Rahman is Vice Chairman and Chief Executive Officer of Yousif Abdul Rahman Engineer Holding Company W.L.L. He is also Chairman of Food Supply Company Limited, Vice Chairman of National Establishment of Technical and Trade Services, Vice Chairman of National Transport Company, and Vice Chairman of Awal Dairy Company. He is a member of the Board of several major companies in Bahrain, including National Bank of Bahrain and Bahrain Ship Repairing & Engineering Company. He gained his B.Sc. Mechanical Engineering from Plymouth Polytechnic University, UK, and is a registered member of Bahrain Society of Engineers and the Committee for Organizing Engineering Professional Practice (COEPP) Mechanical Engineering Cat. B. Mr. Abdul Rahman has over 40 years of professional experience.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5. Mr. Khalil Ebrahim Nooruddin

Board Member

Non-Executive & Independent Director
Elected on 23 March 2016

Mr. Khalil Ibrahim Nooruddin is an experienced banker, at both an executive and board level. Currently, he is the Managing Partner of Capital Knowledge, a consulting and training company. Over the past eight years, he has concluded several consulting assignments for financial institutions, working on strategy formulation and implementation. Prior to this, Khalil Nooruddin worked for Investcorp Bank, Bahrain; UBS Asset Management in London and Zurich; and Chase Manhattan Bank in Bahrain. He is an active member of several civil and professional societies in Bahrain. A Chartered Financial Analyst, Mr. Nooruddin holds an M.Sc. in Quantitative Analysis from the Stern Business School at New York University, USA; and a B.Sc. in Systems Engineering from the King Fahd University of Petroleum & Minerals, Saudi Arabia. He has over 30 years' professional experience.

6. Mr. Ebrahim Hussain Ebrahim Aljassmi

Board Member

Non-Executive & Independent Director
Elected on 23 March 2016

Mr. Ebrahim Husain Ebrahim Aljassmi served as Chief Executive Officer & member of the Board of Directors of Khaleeji Commercial Bank until June 2012, and continued to serve as a Board member until July 2013, and currently is a Board member in Ibdar Bank.

Prior to this, he served as Chief Executive Officer of the Liquidity Management Centre. Previously, at the Arab Banking Corporation ABC, he held the positions of Vice President Global Marketing Unit, and Vice President of the Treasury & Marketable Securities Department, General Manager ABC securities. Also he held the position of General Manager BBK Financial Services and Al-Shamil Bank. He holds an MBA Finance from the University of Bahrain and a B.Sc. Economics from Kuwait University; and has over 35 years' experience in both Islamic and conventional banking.

7. Mr. Othman Ebrahim Naser Al Askar

Board Member

Non-Executive & Independent Director
Elected on 23 March 2016

Mr. Othman Ebrahim Al Askar is the Director of the Investment Department of Waqf public foundation of the State of Kuwait. He joined the awqaf foundation in 1995, and held various positions before taking up his current post in 2010. Prior to this, he was Head of the Investment and Banks Department at Kuwait Public Transport Company. Othman Al Askar is a Board Member of the Educational Holding Group, Kuwait; and a former Board Member of Rasameel Structured Finance Company, Kuwait. He holds a B.Sc. in Business Administration and Economics from the Washington Center University, USA; and has over 29 years' professional experience.

8. Mr. Muhammad Zarrug Rajab

Board Member

Non-Executive & Non-Independent Director
Appointed on 23 March 2016

Muhammad Zarrug Rajab holds a Bachelor's degree in Accountancy and is a fellow member of the Institute of Chartered Accountants in England & Wales. He has held senior posts in Libya including the Auditor General, the Minister of Treasury, Head of Libyan Peoples' Congress, the Prime Minister from 1983 to 1985, Convener of Libyan Central Bank, and Libyan Foreign Investment. Muhammad Rajab has over 45 years' professional experience.

9. Mr. Mohammed Ahmed Abdulla

Board Member

Non-Executive & Non-Independent Director
Appointed on 23 March 2016

Mr. Mohammed Ahmed is the Head of Strategic Initiatives and Business Development at Osool Asset Management Company. Prior to Osool, he held senior management positions at Credit Suisse AG-Bahrain Branch and Credit Suisse AG-Dubai. He started his career at HSBC Middle East, before moving to Merrill Lynch-Bahrain where he spent 7 years. Mohammed Ahmed is a Board Member, Chairman of the Nomination & Remuneration Committee and Audit Committee Member at both the Medgulf Group. Furthermore, he is a Board Member and Vice Chairman of the Audit Committee of Bahrain Commercial Facilities Company and Board Member of Aegila Capital Management, UK. He holds a Bachelor's degree in Accounting from the University of Bahrain, and is accredited to the National Association of Securities Dealers and the National Futures Association. Mr. Mohammed has more than 18 years' professional experience.


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Sharia'a Supervisory Board

1. Rev. Shaikh
Dr. Abdul Latif Mahmood Al Mahmood
Chairman

Shaikh Al Mahmood is a Member of the Sharia'a Supervisory Board of Takaful International and ABC Islamic Bank, Kingdom of Bahrain; ABC Islamic Bank, London; and the Joint Sharia'a Supervisory Board of AlBaraka Group. He has been a Preacher at a number of Bahrain's mosques since 1973; and a lecturer in Quran interpretation, jurisprudence and preaching. Shaikh Al Mahmood is a regular participant in jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars. He holds a PhD from the Shariah Al-Zaytuna College, Tunisia.

2. Rev. Shaikh
Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Aljuffairi is a former Judge of the High Sharia'a Court of Appeal, Kingdom of Bahrain; and seconded as President of the High Sharia'a Court, Ministry of Justice. He is a Friday Imam and speaker.

3. Rev. Shaikh
Adnan Abdullah Al Qattan
Member

Shaikh Al Qattan is a Preacher at the Ahmed Al Fateh Islamic Mosque. He is a Judge of the High Sharia'a, Ministry of Justice, Kingdom of Bahrain; a Puisne Justice of the High Sharia'a Court; and a lecturer at the Islamic Studies Department, University of Bahrain. Shaikh Al Qattan is Chairman of the Orphans and Widows Care Committee of the Royal Court; and the Pilgrimage Mission; and a Member of the Board of Directors of Sanabil for Orphan Care. He is a regular participant in Islamic committees, courses, seminars and conferences.

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4. Rev. Shaikh
Dr. Nedham Mohammed Saleh Yacoubi
Member

Shaikh Yacoubi is a Member of several Sharia'a Supervisory Boards around the world, including Bahrain Islamic Bank, Ithmaar Bank, Gulf Finance House and ABC Islamic Bank, Kingdom of Bahrain; Abu Dhabi Islamic Bank and Sharjah Islamic Bank, UAE; ABC Islamic Bank, London; and the Islamic Accounting Standards Organization, Bahrain. He is the recipient of numerous awards in the field of Islamic Finance. He has a doctorate in Islamic studies.

5. Rev. Shaikh
Dr. Essam Khalaf Al Enizi
Member

Shaikh Al Enizi is a Member of Sharia'a and Islamic Studies Faculty at the University of Kuwait. He is a Member of the Sharia'a Supervisory Committee at Boubayan Bank, Al Sham Bank, and Investment Dar, Kuwait; He holds a PhD from the University of Jordan - Specialization Fiqh and the Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

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Digital Banking

BisB Digital Branch

BisB's Digital Branch at Diplomatic Area gives direct automated access for customers to execute their banking transactions online at the branch by themselves, or with video linkage to the Bank's call center.

BisB's second Digital Branch is scheduled for opening in Q3, 2018.


internet banking
phone banking

Chief Executive Officer Report

Despite the challenges, our Back-to-Basics strategy bore fruits in 2017 with BisB showing another strong year.

The year 2017 was an exceptionally turbulent year for the region on many fronts. Continued weakness in oil prices combined with the need for regional governments to maintain infrastructure and social spending put extra pressure on GCC economies with Bahrain being negatively affected the most.

Liquidity, while remaining available, came at a premium, forcing regional banks, including Bahraini banks, to continue to compete for precious deposits and begin to seek additional funding sources from outside Bahrain as a source of diversification. Cost of funds continues on the rise since early 2017.

IMPROVEMENT IN NET PROFIT

20%

Further downward pressure on sovereign ratings by international rating agencies and the need for regional governments to continue to borrow will only add to fiscal pressures around the region.

Despite the challenges, our Back-to-Basics strategy bore fruits in 2017 with BisB showing another strong year. Among many achievements, the Bank demonstrated strong 11% growth in financing assets as well as 18% increase in customer accounts, a significant decline in the Bank's non- performing financing book to a level unseen in many years, and a 20% improvement in net profits.

The fast pace of technology in our business presents huge challenges, at the same time, unique opportunities to streamline processes, and become more efficient. For the first time, we have successfully introduced one of the best mobile banking applications in the country and completely revamped the old internet-banking platform.

The Bank also launched our first ever IT innovation lab - a bold step towards empowering the Bank's IT team from being merely a support unit into a business enabler. Therefore, in addition to delivery of products and services to our customers, technology will continue to take on a much larger role in many of BisB's activities including marketing, advertising and overall communications.

Investing in Bahraini talent is one of the main pillars of the Bank's Back-to-basics strategy. Therefore, 2017 witnessed another year of introducing effective training programs spanning all staff levels. As part of the Bank's succession planning journey and building a best-in-class leadership team, two additional Bahraini senior executives from a top international bank, Ms. Dalal Al Qais as Head of Retail Banking, and Mr. Mahmood Qannati as Head of Marketing and Corporate Communications, joined the team in late 2017.

Our community involvement continues and remains as one of BisB's values, as well as sponsorships of major Islamic banking events in Bahrain such as the WIBC, AAOFI, and Euro-money. In addition, our efforts to support local social and family needs continue.

The Bank's accomplishments in 2017 would not have been possible without the divine guidance of the Almighty Allah, and the invaluable engagement and support from the Bank's Board of Directors.

Hassan Amin Jarrar
Chief Executive Officer

FINANCING ASSETS
The Bank demonstrated strong 11% growth in financing assets.

11%

NET PROFIT
The Bank achieved 20% improvement in net profits.

20%

Executive Management

1. Hassan Amin Jarrar
Chief Executive Officer

Mr. Hassan Amin Jarrar is one of the most prominent banking leaders in the region with more than 30 years of international, regional and local banking experience. Prior to his appointment as Chief Executive Officer of Bahrain Islamic Bank in July, 2015, Mr. Jarrar's diverse career in Banking includes extensive experience in retail, SME, and corporate banking in the Middle East and the US. Regionally, Mr. Jarrar served as Chief Executive Officer of Standard Chartered Bank, Head of Corporate and SME Banking at Abu Dhabi Commercial Bank, and Head of Corporate Banking, Abu Dhabi at Mashreq Bank. Internationally, he has two decades of experience in key management positions in leading banking institutions in the United States; namely with Security Pacific Bank, and Bank of America. Mr. Jarrar holds a B.Sc. in Finance from California State University, San Jose. He is Chairman of Liquidity Management Center, "LMC", and serves on the Boards of Bahrain Bourse, the Bahrain Association of Banks, Tamkeen, and Bahrain Economic Development Board, Thomson Reuters MENA Regulatory, advisory board.

2. Wesam Abdul Aziz Baqer
Head of Corporate & Institutional Banking

Mr. Wesam Baqer is an experienced Banking professional with a diverse career covering all facets of Corporate Banking, Private Banking, and Business Development. Mr. Baqer joined BisB in 2008 as the Head of the Corporate Banking. Previously, he held the same post at National Bank of Kuwait. Prior to that, he managed corporate relationships with HSBC for 8 years. He is a board member representing BisB in various companies and is an active member in charitable and community service societies in Bahrain.

Mr. Baqer completed an Executive Management Leadership Diploma from Darden Graduate School of Business, University of Virginia (USA). He also holds an M.Sc. (Economics) in Finance and Investment Management from the University of Aberdeen, Scotland, and a BS in Business Administration from the University of Bahrain. He is a Certified Financial Adviser (CeFA), and a member of the Chartered Institute of Bankers.

3. Fahim Ahmed Shafiqi
Chief Risk Officer

Mr. Fahim Ahmed is an experienced Banker with over 20 years of international experience gained through various roles in corporate banking and risk management spanning the markets of Pakistan, GCC, Africa the UK. Prior to joining BisB, Mr. Ahmed held the position of Chief Risk Officer at Standard Chartered Bank Bahrain. He has a Diploma in Islamic Finance (CDIF), and holds an MBA from the UK's University of Warwick.

4. Dalal Ahmed Al Qais
Head of Retail Banking

Ms Al Qais is a highly experienced retail banker. Prior to her appointment in late 2017 as the first Bahraini lady to hold the position of Head of Retail Banking for the Bank, she headed the Consumer Banking Division of Standard Chartered Bank in Bahrain, with regional responsibilities covering Bahrain, Qatar and Oman. During her 16 years with Standard Chartered Bank, her management roles covered retail branch banking, SMEs, credit cards, and wealth management. Ms Al Qais also brings to the Bank in-depth knowledge of consumer banking digitization channels. She holds a Master Degree in Finance and a Bachelor's Degree in Management and Marketing.

5. Khalid Mahmood Abdulla
Head of Internal Audit

Mr. Khalid Mahmood has over 22 years of experience in Accounting, Auditing, Banking and Sharia. He took up his current position with BisB in 2006. Prior to this, he was Head of Internal Audit at Al Baraka Islamic Bank, having started his career with Arthur Andersen and Bahrain National Gas Company (BANAGAS). Khalid is a Certified Public Accountant (CPA) California, USA, and attended the Leadership Development Program at Darden School of Business, University of Virginia, USA.

6. Dawood Khalil Al Ashhab
Head of Human Resources & General Services

Mr. Dawood Al Ashhab brings to the Bank a wealth of international banking experience and an in depth knowledge of HR Management best practice. Prior to joining BisB, Mr Al Ashhab managed the human resources team regionally at Standard Chartered Bank, covering the Bank's Bahrain, Oman, Qatar, Jordan and Saudi Arabia offices. Mr. Al Ashhab holds a BS in Public Administration, is a certified coach from the prestigious Gallup University, UK, and is a member of the Society of HR Management (SHRM).

7. Osama Ali Nasr
Head of Information Technology

Mr. Osama Nasr holds a Master's degree in Information System Management from the University of Liverpool in the United Kingdom. In addition to his participation in several courses and workshops specialized in the field of work. He is currently the head of information technology in BisB. Mr. Osama Nasr has a good professional experience in various areas of information technology. Prior to joining Bahrain Islamic Bank in 2007 as a head of Application Services in the information technology department, Mr. Osama has held various key positions in a number of specialized companies in the information


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technology services in and outside of the Kingdom of Bahrain. Mr. Osama holds over 20 years of exposure and knowledge in information technology. In addition to his current rule in BISB, he is a Non-Executive member of Global Payment Services- GPS W.L.L.

8. Ameer Abdul Ghani Dairi

Acting Chief Financial Officer

With over 18 years of experience in financial management. Mr. Ameer Abdul Ghani Dairi is a Certified Public Accountant (CPA) from New Hampshire Board of accountancy, USA and a Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountants, USA. He is a board member representing BisB in LMC and he is also holds a B.Sc. in Accounting from the University of Bahrain and has had a broad commercial banking career in Bahrain. Mr. Dairi has been with Bahrain Islamic Bank since 2007.

9. Mahmood Qannati

Head of Marketing & Corporate Communications

Mr. Mahmood Qannati has extensive local and regional experience in marketing, communication and brand identity management for more than 17 years. Prior to joining Bahrain Islamic Bank, he held several senior positions at Standard Chartered including Regional Marketing Head, and Regional Head of Marketing and Corporate Communications at SIGNA in the United Arab Emirates. He holds a Master's degree in Marketing Information Systems from the University of Sunderland and a Bachelor of Marketing degree from the University of Bahrain.

10. Hussain Ebrahim Al Banna

Head of Treasury Department

Mr. Hussain is a banking professional with more than 14 years of conventional as well as Islamic banking experience in various capacities. His banking experience started in 2004 when he joined the BNP Paribas as an Officer in the Regional Treasury Operations. In early 2005, he was selected for the prestigious Executive Management Trainee Program at Bank of Bahrain and Kuwait (BBK) where he was exposed to all the desks within the Treasury & Investments department. There he gained in-depth knowledge of Foreign Exchange (FX), Money Market (MM) - Asset Liability Management (ALM), Corporate Treasury sales and finally handling of over US$ 700 million fixed income bond portfolio. He joined BisB in 2008 and is currently Assistant General Manager heading the treasury department with a mandate of handling FX, MM as well as the Bank's sukuk portfolio. He holds a Bachelor's degree in Banking and Finance from the University of Bahrain & has successfully completed Treasury & Capital Markets diploma from Bahrain Institute of Banking & Finance (BIBF).

11. Hassan A.Wahab Al Khan

Head of Central Operations department

Mr. Hassan Al Khan has over 19 years' experience in retail & Banking Operations. He took up his current position as Head of Central operations at BisB in 2016. Mr. Alkhan holds an MBA degree (Al Ahlia University) & BS in accounting (UOB), in addition to CIPA (Certified of Islamic professional accountant- AAOIFI) and CITF (Certified in International trade finance)

12. Maisa Jawdat Shunnar

Head of Business Planning & Transformation

Mrs. Shunnar is a qualified, trained and seasoned professional. With over 17 years of rich and insightful experience, in a vastly international environment (USA & Middle East). Prior to holding her current position in BisB, Mrs. Shunnar worked in the National Bank of Abu Dhabi (NBAD) as a Transformation Manager overseeing the aggregated change activity within the Bank. She drove major changes across the bank such as the centralization of the non-core business activities and the building of the shared services center. In previous assignments, Mrs. Shunnar headed the Business Process Re-engineering (BPR) Department in the Electronic Government of Bahrain and she served as the Manager of Performance &Productivity Improvements for EDS on the Gulf Air Account. Prior moving to the Middle East, Mrs. Shunnar worked in Shell Oil & Gas and for the City of Houston in the State of Texas, USA. Mrs. Shunnar is a certified & accredited trainer for the United Nations on Business Process Re-engineering. Mrs. Shunnar holds a B.Sc. degree in Business Administration majoring in Computer Information Systems from the University of Houston (Texas, USA), and a Master degree in Business Communication and Leadership from Jones International University (Colorado, USA).

13. Khalid Abdulrahman Nass

Head of Compliance and Anti-Money Laundering

Mr. Khalid Nass has over 16 years' experience in compliance; accounting; and financial management. He is heading and managing the compliance and anti-money laundering functions in BisB, in addition to coordination with all statutory regulators, including the Central Bank of Bahrain, Bahrain Bourse, Ministry of Industry and Commerce and Ministry of Interior. He joined BisB in 2007 following a three-year spell as a Bank Examiner with the Central Bank of Bahrain. His duties cover all compliance matters for the Bank, Anti-Money Laundering prevention and Tax reporting. All Corporate Governance Policies and Procedures within BisB also fall under his remit. Mr. Nass has an MBA from Webster University, Orlando, FL, USA; a B.Sc. degree in Finance from the University of Central Florida, Orlando FL, USA; Certifications from Association of Certified Anti-Money Laundering Specialists (ACAMS), International Compliance Academy (ICA) and Global Academy of Financial management (GAFM), with distinctions.


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Review on Operations

Immense strides forward were achieved in the digitization and automation programs across the consumer banking network, with the constant aim of offering customers an efficient and seamless banking experience.

Our Businesses

Retail Banking

Retail Banking Group performed well in 2017, in both financial and operational aspects of the business. In a continuing aggressive competitive retail banking market, net income after provisions improved 14% from the previous year, and 8% above budget; as well as a positive growth in assets and customer deposits.

Our focused offerings in Tejoori, Iqra, and Vevo Youth Account deposit products maintained their respective market shares. The increase in the number of customers has continued, and particularly in our Credit Card business, where the volume of cards has expanded 14%.

Immense strides forward were achieved in the digitization and automation programs across the consumer banking network. In the last quarter of the year, the Bank launched 'BisB Digital', a comprehensive group of digital services including Online Banking, Mobile Banking and Video Banking. Applying high levels of technology, this assists customers with all of their banking transactions in a convenient, safe and secure environment, anytime and anywhere.

With the constant aim of offering customers an efficient and seamless banking experience, much of the frontline branch processes have been transferred to the Central Operations back office platforms.

Corporate and Institutional Banking

Despite 2017 being a demanding year, Corporate & Institutional Banking grew assets by 29%, and deposits by 59%, with the main drivers of growth being government related entities; trading; construction as part of the GCC Marshall plan; and the SMEs portfolio.

A significant reduction of 38% was achieved in NPAs.

Financial Institutions department booked the first ever BisB syndication, arranged by Bank ABC, with the participation of eight financial institutions from the GCC and the UK.

Transaction Banking was introduced, with the objective of offering cash management and trade finance to the Bank's customers. In consonance with BisB's digitization thrust, we launched our digital acquiring service for corporate clients. The division also finalized its new transactional corporate eBanking channel, which is scheduled for the first quarter of 2018.

We anticipate a challenging year ahead. However, Corporate & Institutional Banking remains committed to its support to the local Bahraini economy, and will continue its focus on Government and quasi-Government projects and the SME portfolio. In addition, the division will concentrate on Non-funded income; introducing Custody Service; enhancing trade finance activity; and cash management.

Treasury

During 2017, the GCC witnessed more game-changing geopolitical activity than at any time in recent years. Combined with continued low oil prices, this caused increased volatility in financial markets. As a result, strengthening the liquidity base whilst diversifying funding was key towards meeting the Bank's obligations and maintaining a healthy balance sheet growth in line with strategy.

BisB was engaged in its maiden Sukuk Repurchase transaction of US$88 million and a bilateral transaction of US$ 50 million. The Bank tapped the capital markets for its first ever syndicated facility whereby US$101 million was raised from regional and international financial institutions. This was well received by institutional investors, reflecting BisB's strengthening credit profile.

The Sukuk portfolio grew 101% to BHD 228 million with the sovereign portfolio constituting more than 87% of the Sukuk book.

Our Business Enablers

Human Capital

Human Resources constantly touches every pillar of the Bank's Ishraq Back to Basics strategy, with the vision to establish BisB as an employer of choice. Diversity and inclusion efforts continue with the encouragement of active engagement between the management team and employees.

Gender equality was demonstrated by the appointment of BisB's first woman millennial as General Manager, heading the Retail Banking Group. A woman Board Secretary was appointed for the first time, and the Bank now has its first woman Sharia'a Auditor.

As one of the pillars of our Back-to-Basics strategy, training and development is a cornerstone in building future BisB leaders, capable of matching the best in class in the industry. Multiple initiatives to provide personal and professional growth opportunities impacted all levels of the Bank's management and staff. Dedicated programs were organized, including, but not limited to Shine Leadership Program; Darden Leadership Program; Coaching Leadership Programs; and personalized executive coaching sessions.

At line management level, Team Effectiveness, Six Sigma, KPI Building and Performance Management workshops were further emphasized to enhance employees' skills and capabilities during the year.

In a strategic partnership project with the Korn Ferry / Hay Group, BisB confirmed its position in the market in comparison to its peers in Bahrain. The engagement also provided job evaluations and assessed the Bank's internal equity and cost rationalization.

Standard Key Performance Indicators (KPIs) and defined measurement tools based on real targets for all departments, and aligned with the Bank's Ishraq strategy, were introduced during the year.

Diversity and inclusion efforts continue with the encouragement of active engagement between the management and employees, as well as BisB's commitment to gender equality.

BISB'S PHONE BANKING SERVICE IS AVAILABLE AROUND THE CLOCK, 24/7, TO RESPOND TO CUSTOMERS' ENQUIRES IN REAL TIME.

Online Banking

BisB
Online

‘BisB Digital’

‘BisB Digital’, the Bank’s innovative omni-channel program, delivers simple and efficient access to customers’ accounts through the internet, mobile web and apps.

“Access your accounts and perform your banking activities from anywhere, anytime – at your convenience”

Review on Operations
(Continued)

Information Technology department will sustain its promise of delivering projects that streamline processes, support improvement, and ensure the delivery of instant service to our customers.

Information Technology

2017 was a critical milestone in our digital transformation journey, with a tremendous surge toward changing the way we deliver services to our clients. The Bank introduced its new 'BisB Digital' services, established on an omni-channel platform, and accessible through the internet, mobile web and apps. In addition, the department implemented major improvements to its IT infrastructure and established new state of the art platforms to enable streamlined development processes.

This year has also seen a realignment in the IT units. Upgraded leadership positions have been filled from within through further investment in personnel skills. A dedicated Digital Channels unit overlooking all BisB Digital Channels has been established, as has a Digital Innovation unit to support the Bank in leading the way in the innovative field of FinTech.

In pursuit of BisB's journey of digital transformation and IT infrastructure excellence, in 2018, the department will sustain its promise of delivering projects that will streamline processes, support improvement, and ensure the delivery of instant service to our customers.

Brand, Marketing, and Corporate Communications

In 2017, with the aim of attracting new-to-bank customers and increasing market share, BisB refreshed its product and brand marketing strategy. The new brand and client-centered communication strategy focuses on a more approachable tone of voice and lifestyle-oriented visuals. The revamped strategy is an external reflection of the various Ishraq initiatives undertaken by the Bank to improve the client experience.

During 2017, the Bank fully embraced digital marketing. The launch of the new BisB Intranet by Corporate Communications, created a single repository for all BisB forms, and templates, and serves as an internal communication tool across all departments. A new Tejoori Al Islami campaign, #TejooriDreams, which engages customers through social media, was introduced, as well as brand activations at Bahrain City Centre and a television commercial in January. In addition, the Marketing Department worked with the Credit Cards team to run successful Mastercard and Visa campaigns, and a unique Ramadan Car promotion. The Bank also introduced its new 2-year fixed term deposit account, Al Wekala, with an integrated communication campaign aimed at capturing the mass affluent audience.

BisB hosted the highly successful Business Outlook 2018 event at the Capital Club, Bahrain, and also sponsored a range of knowledge-sharing and thought-leadership events throughout the year including AOIFI and the WIBC.

BISB OFFERS CORPORATE BANKING CUSTOMERS THE ABILITY TO RECEIVE PAYMENTS DIRECT TO THEIR ACCOUNTS FROM THEIR OWN CLIENTS THROUGH 'BENEFIT PAY', AN ELECTRONIC CHANNEL UTILIZING SMART DEVICES

'BisB Digital,'encompassing internet banking, mobile banking and video banking, was launched with personalized videos from the chief executive officer, 'how to' animations and social media commercials.

2017 was a busy twelve months, full of initiatives and change, learning and experimentation - a year to refresh strategic communication foundations and to position BisB for further success in the coming years.

Central Operations/ Business Planning and Transformation/ General Services

The coordinated efforts of the major support groups within BisB contribute greatly to efficient operations across the Bank.

Central Operations streamlined all transactional processes and absorbed operations activities from the front office business units, enabling enhanced quality of service to BisB's customers.

Business Planning and Transformation oversaw the successful building of a strong foundation for the implementation of BisB's Back to Basics Strategy. The five pillars touch every part of the Bank, and that recognition is alive within every division and department. The department's strategy for 2018 includes providing planning support across the Bank for arrays of digital services and new ideas to keep pace with the financial market's progressive innovations, together with continued attention to facilitating BisB's overall improvement of its existing product and service offerings to its various constituencies.

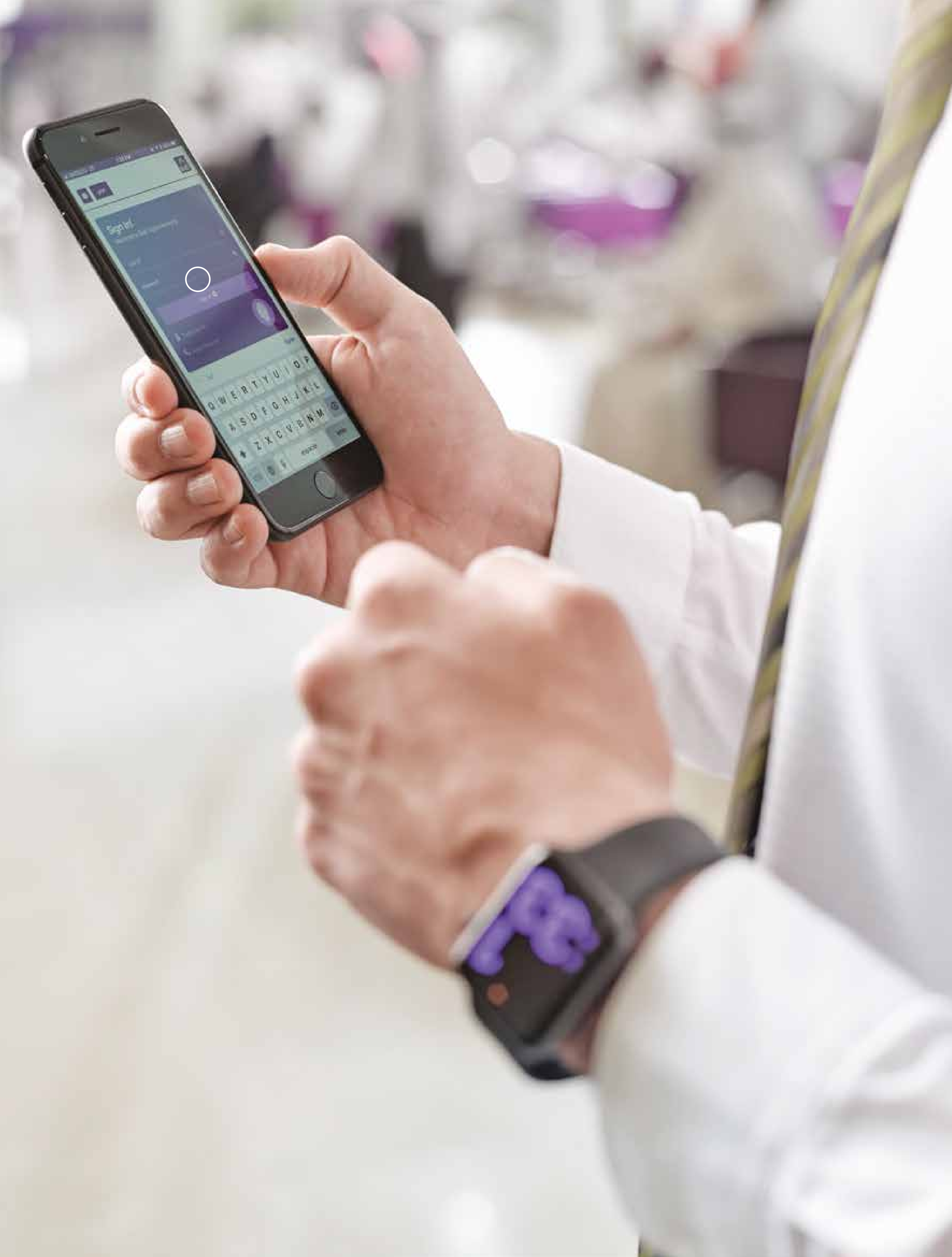
General Services operates and maintains all day-to-day services for the Bank. The department constantly pursues innovative means for practical cost optimization of operational expenses, while maintaining utmost efficiency. The department maintains transparency toward all service providers, which includes a new Vendor Management Policy to achieve the best services for all departments of the Bank.

2017 was a year of refreshing BisB's strategic communication foundations, positioning the Bank for further success in the coming years.

Mobile Banking

BisB Mobile

Banking convenience at your fingertips, permitting banking transactions from your mobile phone anywhere, anytime



Risk Management

As an inherent part of the Bank's activities, risk is managed through a process of ongoing identification, measurement, monitoring and reporting in line with the risk appetite of the Bank, which is set and guided by the Board of Directors. This process of risk management is critical to the continued profitability of BisB, and all individuals within the institution are personally accountable for the risk exposures relating to their responsibilities.

The Bank is exposed primarily to credit risk, liquidity risk, market risk (including profit rate, equity price and currency risks), operational risk, reputational risk and Sharia'a-compliance risk.

Risk management philosophy

The risk management philosophy of BisB is to identify, capture, monitor and manage the various dimensions of risk. The objective is to protect asset values and income streams so that the interests of the Bank's stakeholders are safeguarded; while optimising shareholders' returns, and maintaining risk exposure within the parameters set by the Board.

The Bank has defined its risk appetite within the broad framework of its Risk Management Framework. BisB reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks.

Risk management framework

BisB has in place a comprehensive enterprise-wide integrated Risk Management Framework. This embraces all levels of authorities, organisational structure, people and systems required for the smooth functioning of risk management policies within the Bank.

The Board of Directors retains ultimate responsibility and authority for all risk matters, including establishing overall policies and procedures. The Board is assisted in fulfilling its responsibilities by the Chief Executive, and various Board-level and Management committees.

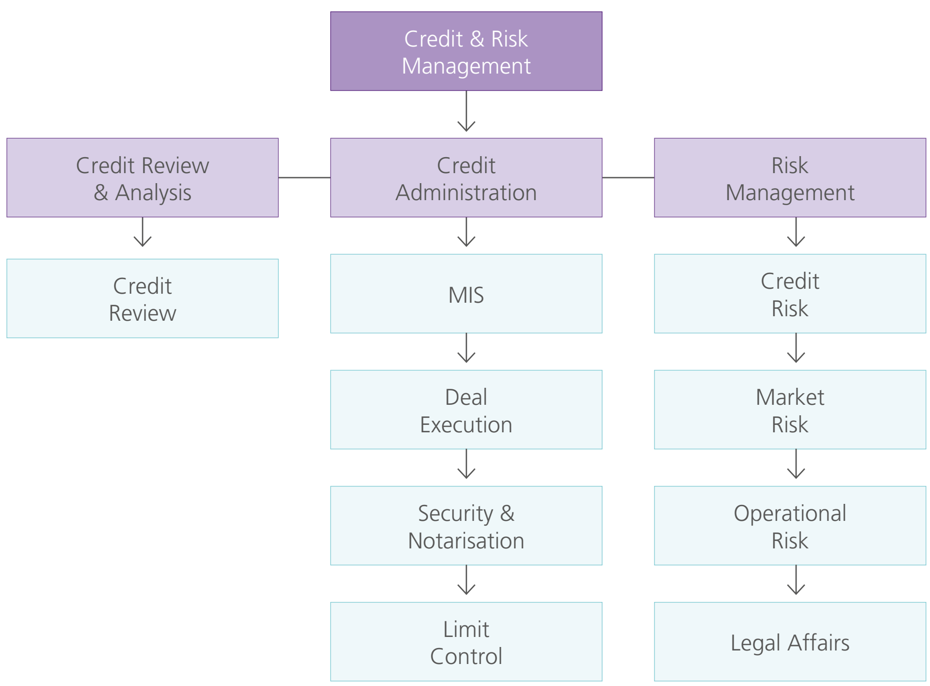
The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer reporting to the Chief Executive on a day-to-day administrative basis, has day-to-day responsibility for managing the risks involved across all areas of the Bank. C&RM provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. C&RM comprises a number of specialist units, including Risk Management, Credit Review & Analysis, Credit Administration.

Taking into consideration the current global and regional market conditions, the Bank continued to place the highest priority on further strengthening its risk management infrastructure during 2017 and as a result the Bank has an improved risk management mechanism in place.

Key developments and initiatives achieved include:

- Amending the Credit Risk Management Policy and Risk Management Framework
- Enhancement in the MIS and the risk reporting to the Board and the Management
- Strengthening of the Liquidity Risk Management of the Bank
- Ensuring the ongoing compliance with the policies of the Bank, and monitoring the enterprise-wide risk through various systems and processes

Note: Additional information on the Bank's risk management framework, policies, processes and procedures is included in the Notes to the Consolidated Financial Statements and the Basel III Pillar 3 Public Disclosure sections of this annual report.



Remuneration Disclosures

The Bank's total compensation approach, which includes the variable remuneration policy and the Share Incentive Scheme, sets out the Banks's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

The Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain. The revised policy framework and incentive components were approved by the Board of Directors and the policy came into effect as of January 2014.

The key features of the remuneration framework are summarized below.

Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank.
These elements support the achievement of the Bank's objectives through balancing rewards for both short-term results and long-term sustainable performance. This strategy is designed to share success, and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all BisB's employees is fundamental to success. The Bank therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long- term interests of shareholders. The Bank's reward package comprises the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination & Remuneration Committee (NRC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and / or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what BisB pays its people and the business strategy, individual performance is assessed against annual and long-term financial and non-financial objectives summarized in the performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term, but also importantly on how it is achieved, as the NRC believes the latter contributes to the long-term sustainability of the business.

NRC role and focus

The NRC has oversight of all reward policies for the Bank's employees. The NRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

The responsibilities of the NRC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn the same short-run profit but take different amounts, of risk on behalf of the Bank.
- Ensure that for Material Risk-Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for Approved Persons in risk management, internal audit, operations, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Remuneration Disclosures
(Continued)

Scope of application of the remuneration policy

The variable remuneration policy has been adopted on a bank-wide basis.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit after all required deductions as outlined in Article 188 of the Companies law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting and MOIC approval. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the Bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not to be determined by the financial performance of the business area they monitor.

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

Variable compensation for business units

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

Risk assessment framework

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

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

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

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

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

(a) The cost and quantity of capital required to support the risks taken;

(b) The cost and quantity of the liquidity risk assumed in the conduct of business; and

(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

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

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration.
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower.
- Reduction in the value of deferred shares or awards.
- Possible changes in vesting periods and additional deferral applied to unvested rewards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRC, with the Board's approval, can rationalise and make the following discretionary decisions:

- Increase / reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of non- cash awards
- Recovery through malus and clawback arrangements

Malus and Clawback framework

The Bank's malus and clawback provisions allow the Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited / adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

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

- Reasonable evidence of willful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/ the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of Variable remuneration

Variable remuneration has the following main components:

Upfront Cash:

The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.

Deferred Cash:

The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.

Upfront shares:

The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.

Deferred shares:

The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years.

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

Remuneration Disclosures
(Continued)

Deferred Compensation

The CEO, his deputies and 5 most highly paid business line employees are subject to the following deferral rules:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Up-front cash	40%	immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

All other covered staff, i.e. Assistant General Manager level and above are subject to the following deferral rules:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Up-front cash	50%	immediate	-	-	Yes
Up-front share awards	10%	immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

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

Details of remuneration paid

(a) Board of Directors & committees

BD 000's	2017	2016
Sitting Fees	141	178
Remuneration	*283	283

*Subject to AGM and regulatory approval.

(b) Employee Remuneration

2017

		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
BD 000's	Number of staff	Cash	Others	(Cash / Shares)	(Cash / Shares)	Cash	Shares	Cash	Shares	Others	Total
Approved persons											
- Business lines	6	1,646	-	-	-	114	-	26	131	-	1,918
- Control & Support	9	1,124	-	-	-	90	13	-	52	-	1,281
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	345	9,012	-	-	-	790	-	-	-	-	9,802
TOTAL	**360**	**11,782**	-	-	-	**994**	**13**	**26**	**184**	-	***13,000**

*Includes end of service compensations & includes staff cost of employees who have left the bank during the year.

2016

		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
BD 000's	Number of staff	Cash	Others	(Cash / Shares)	(Cash / Shares)	Cash	Shares	Cash	Shares	Others	Total
Approved persons											
- Business lines	6	1,094	40	-	-	87	-	22	109	-	1,352
- Control & Support	8	832	-	-	-	47	8	-	32	-	919
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	347	8,521	-	-	-	669	-	-	-	-	9,189
TOTAL	361	10,447	40	-	-	803	8	22	141	-	11,460

Includes end of service compensations & includes staff cost of employees who have left the bank during the year.

Deferred awards disclosures

2017

BD 000's	Cash	Shares		Total
		Number	BD 000's	
Opening balance	67	2,940,058	353	420
Awarded during the period	26	1,318,000	198	224
Paid out / released during the period	(20)	(578,663)	(82)	(102)
Service, performance and risk adjustments	-	-	-	-
Corporate action adjustment	-	-	-	-
Closing balance	73	3,679,395	469	542

Number of shares for the 2017 deferred share awards has been calculated using estimated year end share prices as the award price in accordance with the Share plan policy of the Bank will be determined at a later date.

2016

BD 000's	Cash	Shares		Total
		Number	BD 000's	
Opening balance	49	2,141,578	268	317
Awarded during the period	22	1,062,888	149	171
Paid out / released during the period	(4)	(264,408)	(64)	(68)
Service, performance and risk adjustments	-	-	-	-
Corporate action adjustment	-	-	-	-
Closing balance	67	2,940,058	353	420

Corporate Responsibility

BisB is proud of its commitment to social responsibility in the communities we serve, and contributes to the social well-being and economic development of the Kingdom of Bahrain.

Our support of the Islamic Banking industry in the country takes the form of participation and sponsoring of key industry events. In 2017 this included the World Islamic Banking Conference and the World Bank Annual Conference on Islamic Banking & Finance.

We continue to support vigorously a number of charitable, medical, educational and social organizations, and encourage participation of our staff and management in local community activities.

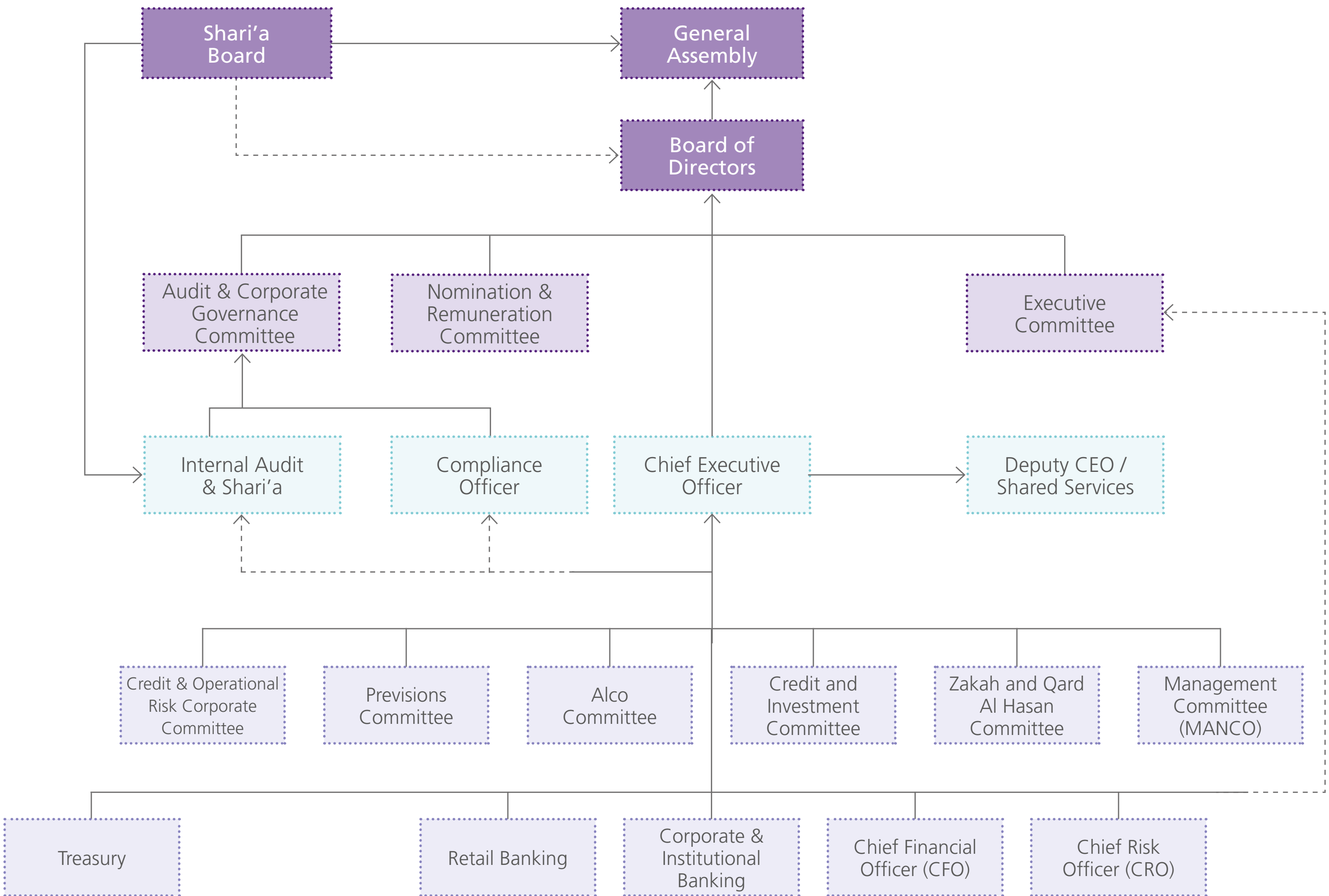
Organizing The Bank's first Sharia'a forum foucusing on defing Islamic Banking prouducts

WIBC Conference 2017 Sponsorship

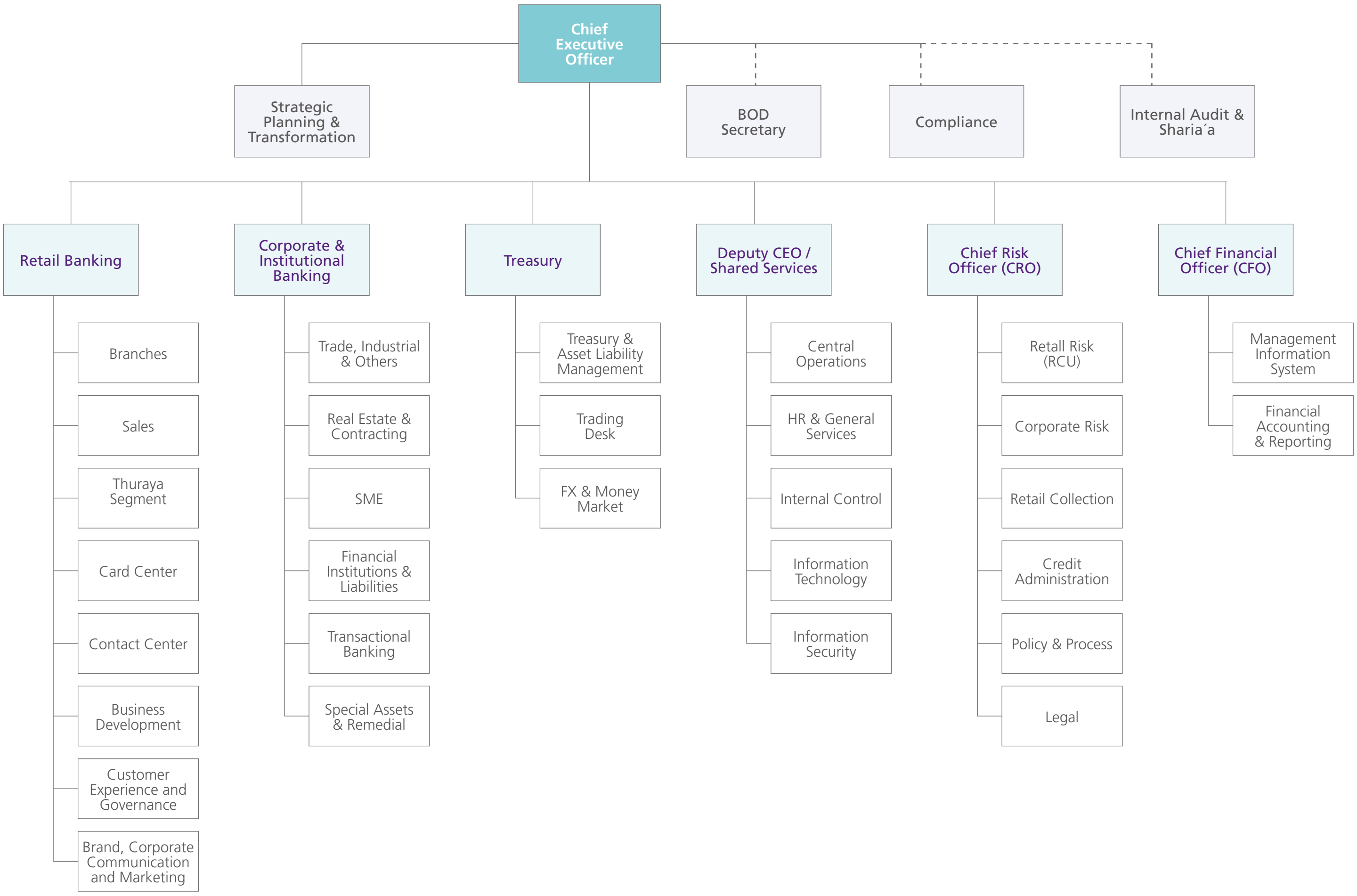
Corporate Governance Review

BisB is committed to uphold the highest standards of corporate governance, and the Central Bank of Bahrain's High- Levels Control Module (and its amendments). The Bank seeks to balance entrepreneurship, compliance and industry best practice, while creating value for all stakeholders. This includes, but is not limited to, conducting the policy and affairs of BisB in compliance with regulatory requirements. It also involves having the right checks and balances in place throughout the organization to ensure that the right things are always done in the right way. The Bank remains unwavering in its commitment to good corporate governance and will consistently and transparently communicate with its regulators, shareholders and stakeholders. Committed to achieve high standards of Compliance, the Bank introduced a series of training and awareness courses on different banking areas including corporate governance, policies & procedures, and a specialized anti-fraud courses.

Furthermore, BisB has introduced an automated Compliance Management solution where it links all the Bank's departments to a centralized regulatory data bank that provides guidance on the latest regulatory obligations and requirements. The "Compliance Management System" is part of BisB's 'Ishraq' Back to Basics internal transformation strategy which focuses on five main pillars introduced to optimize and develop aspects of the Bank's processes with an aim to grow the Bank's foundations and achieve its vision and mission.



Corporate Governance Review
(Continued)



Developments in 2017

- AGM of 2016 held on 23 March 2017.
- Board structure remained unchanged, except for new appointed representatives of SIO, Brig. Ebrahim Abdulla Al Mahmood (Deputy Chairman) replacing Brig. Khalid Mohammed Al Mannai (former Deputy Chairman).
- Appointed world class trainers to deliver Anti-Money Laundering and Anti-fraud courses.
- Online AML training rolled out for all relevant staff as per CBB's requirements stipulated in Financial Crimes (FC) Module.
- Responded to the following CBB Consultation Papers:
  - Proposed Netting Law 2017
  - Proposed Amendments to the Takeovers, Mergers and Acquisitions Module (Module TMA) Volume 6
  - Proposed Amendment to Module CM
  - Proposed Regulatory Sandbox
  - Proposed Fees and Charges for Retail Customers
  - Proposed methodology for calculating Financial Penalties to be imposed upon CBB licensees
  - Financing Based Crowdfunding Directives
  - Proposed Internal Audit Requirements under the High Level Controls Module (Module HC)
  - Secured Transactions Law
  - Recent trends in termination of foreign correspondent banking relationships
  - Impact Assessment of BCBS Standards on Interest Rate Risk in the Banking Book
  - Notarisation Law

Board of Directors

Role and Responsibilities of the Board

The primary responsibility of the Board of Directors is to provide effective governance over the Bank's affairs for the benefit of the shareholders; and to balance the interests of BisB's diverse constituencies, including associated concerns, employees and other stakeholders. In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank.

The Board approves and oversees the implementation of the Bank's strategies; and reviews and approves the Bank's strategic plan. As part of its strategic review process, the Board reviews major plans of action and business plans; sets performance objectives; and oversees major investments, divestitures and acquisitions. Every year, at an annual Board strategy session, the Board formally reassesses the Bank's objectives, strategies and plans. The Board's responsibilities are described in more detail in the Corporate Governance Report published on the Bank's website, and in the Charter of the Board of Directors.

Board Composition

The Board of Directors of BisB comprises nine Non- Executive Directors, of which four are Independent Directors. Each term of the Board of Directors consists of three years. The last re-election of the Bank's Board of Directors was held at the Bank's Annual General Meeting (AGM) on 23 March 2016. Profiles of Board Members are listed on page 8 & 9 of this annual report.

1. Dr. Esam Abdulla Fakhro (Appointed on: 23-03-2016)
2. Brig. Ebrahim Abdulla Al Mahmood (Appointed on: 28-05-2017 replacing Brigadier Khalid Mohammed Al Mannai).
3. Khaled Yusuf AbdulRahman (Appointed on: 23-03-2016)
4. Mohammed Ahmed Abdulla (Re-appointed on: 23-03-2016)
5. Talal Ali Al Zain (Re-elected on: 23-03-2016)
6. Khalil Ebrahim Nooruddin (Re-elected on: 23-03-2016)
7. Ebrahim Husain Ebrahim Aljassmi (Re-elected on: 23-03-2016)
8. Othman Ebrahim Naser Al Askar (Re-elected on: 23-03-2016)
9. Muhammad Zarrug Rajab (Re-appointed on: 23-03-2016).

Induction of new directors

The approved Corporate Governance Policy by the Board of Directors requires each new Director to receive a formal and tailored induction from the Chairman and Senior Management, with respect to BisB's vision and strategic direction; core values including ethics; corporate governance practices; and financial matters and business operations.

Board Committees

The Board constitutes three Committees - Executive Committee, Audit & Corporate Governance Committee and Nomination & Remuneration Committee. Each of these committees has its own Charter that describes the responsibilities of its members.

Corporate Governance
(Continued)

Board Committee Membership and Objectives

Board Committee	Members	Objectives
Executive Committee	**Brig. Ebrahim Abdulla Al Mahmood*** Chairman Members • Khalil Ebrahim Nooruddin • Khaled Yusuf AbdulRahman • Mohammed Ahmed Abdulla • Hassan Amin Jarrar (non-voting member) *Appointed as Chairman of Executive Committee as per Board resolution dated 27 July 2017, replacing Brig. Khalid Mohammed Al Mannai.	The objective of the Executive Committee of the Bank is to undertake the duties and responsibilities delegated by the Board of Directors to assist the Board in the fulfilment of its duties to the Bank and its shareholders.
Audit & Corporate Governance Committee	**Ebrahim Husain Aljassmi** Chairman Members • Othman Ebrahim Al Askar • Muhammad Zarrug Rajab	The Audit & Corporate Governance Committee has a formal written charter which states the committee's duties of oversight of integrity and reporting of the Bank's quarterly and annual financial statements. It also covers review of risk, provision and impairment, compliance with legal and regulatory requirements.
Nomination and Remuneration Committee	**Dr. Esam Abdulla Fakhro** Chairman Members • Talal Ali Al Zain • Ebrahim Husain Aljassmi* * Appointed as member of Nomination & Remuneration Committee as per Board resolution dated 27 July 2017, replacing Brig. Khalid Mohammed Al Mannai.	The Nomination and Remuneration Committee is a Board subcommittee that consists of Board members who shall be responsible for developing and recommending changes from time to time in the Bank's nomination and remuneration policy framework. In the current committee structure the Chairman is non-independent. Temporary clearance was obtained from the Central Bank of Bahrain for year 2017 and the same will be sought for 2018.

Evaluation of the Board and its Committees

The Nomination and Remuneration Committee carried out an evaluation of the Board and its Committees through the distribution of questionnaires to each Board Member, followed by an assessment of the Committees and Members. The Committee expressed its satisfaction with the positive results.

Directors' Remuneration

The aggregate Board sitting fees, including travel expenses, totaled BD 141 thousands in 2017.

Board Meetings & Attendance in 2017

The Board of Directors met five times during 2017, details of which are given in the following table. This exceeds the minimum requirement of having at least four meetings in any given year, as stipulated by the Central Bank of Bahrain. The table also shows attendance of Directors at Board Committee meetings.

Members	12 Feb	23 Mar	25 Apr	27 Jul	30 Oct
Dr. Esam Abdulla Fakhro (Appointed on: 23 Mar 2016)	✓	✓	✓	✓	✓
Brig. Khalid Mohammed Al Mannai (Replaced by Brig. Ebrahim Abdulla Al Mahmood on: 28 May 2017)	✓	✓	✓	–	–
Brig. Ebrahim Abdulla Al Mahmood (Appointed as SIO's representative replacing Brig. Khalid Mohammed Al Mannai on: 28 May 2017)	–	–	–	✓	✓
Khaled Yusuf AbdulRahman (Appointed on: 23 Mar 2016)	✓	✓	✓	✓	✓
Mohammed Ahmed Abdulla (Re-appointed on: 23 Mar 2016)	✓	✓	✓	✓	✓
Talal Ali Al Zain (Re-elected: 23 Mar 2016)	✓	✓	✓	✓	✓
Khalil Ebrahim Nooruddin (Re-elected on: 23 Mar 2016)	✓	✓	✓	✓	✓
Ebrahim Husain Aljassmi (Re-elected on: 23 Mar 2016)	✓	✓	✓	✓	×
Othman Ebrahim Al Askar (Re-elected on: 23 Mar 2016)	✓	✓	✓	✓	✓
Muhammad Zarrug Rajab (Re-appointed on: 23 Mar 2016)	✓	✓	✓	✓	✓

Executive Committee Meetings & Attendance:

Members	07 Feb	12 Feb	01 Mar	14 Mar	23 May	13 Jun	19 Sep	21 Nov
Brig. Ebrahim Abdulla Al Mahmood	–	–	–	–	–	–	✓	✓
Brig. Khalid Mohammed Al Mannai	✓	✓	✓	✓	–	–	–	–
Khalil Ebrahim Nooruddin	✓	✓	✓	✓	✓	✓	✓	✓
Mohammed Ahmed Abdulla	✓	✓	✓	✓	✓	✓	✓	✓
Khaled Yusuf AbdulRahman	✓	✓	✓	✓	✓	✓	✓	✓
Hassan Amin Jarrar	✓	✓	X	✓	✓	✓	✓	✓

Corporate Governance Review
(Continued)

Audit & Corporate Governance Committee Meetings & Attendance

Members	26 Jan	24 Apr	21 May	10 Jul	24 Jul	29 Oct	10 Dec	11 Dec
Ebrahim Husain Aljassmi	✓	✓	✓	✓	✓	✓	✓	✓
Othman Ebrahim Al Askar	✓	✓	✓	✓	✓	✓	✓	✓
Muhammad Zarrug Rajab	✓	✓	✓	✓	✓	✓	✓	✓

Nomination & Remuneration Committee Meetings & Attendance:

Members	13 Feb	16 Apr	19 Jun
Dr. Esam Abdulla Fakhro	✓	✓	✓
Talal Ali Al Zain	✓	✓	✓
Khalid Mohammed Al Mannai	✓	✓	-

Shareholders Ownership (5% and above)

Shareholder	Nationality	Number of Shares	Percentage	Type of Ownership
Social Insurance Organization	Bahrain	294,484,927	29.06%	Government owned entity
National Bank of Bahrain	Bahrain	294,482,159	29.06%	Majority shares owned by Government
Islamic Development Bank	Saudi Arabia	146,117,221	14.42%	Owned by participating group of Governments
Kuwait Awqaf Public Foundation	Kuwait	72,729,830	7.17%	Government owned entity

Distribution of Ownership of Shares by Nationality

Country	Percentage	Number of Shares
Kingdom of Bahrain	73.14%	741,156,096
Kingdom of Saudi Arabia	15.07%	152,743,951
Kuwait	8.66%	87,787,321
United Arab Emirates	2.98%	30,165,940
Qatar	0.13%	1,316,590
Others	0.02%	219,232
Total	**100.000%**	**1,013,389,130**

Board Meetings & Attendance in 2017 (Continued)

Changes in Distribution of Ownership shares of Directors, Shari'a Members and Approved Persons

Directors	Shares as of 31st Dec 2016	Sold during 2017	Acquired during 2017	Shares as of 31st Dec 2017
Dr. Esam Abdulla Fakhro	0	0	50,000	50,000
Brig. Ebrahim Abdulla Al Mahmood	0	0	0	0
Mohammed Ahmed Abdulla	0	0	0	0
Khaled Yusuf AbdulRahman	0	0	0	0
Talal Ali Al Zain	0	0	0	0
Khalil Ebrahim Nooruddin	0	0	0	0
Ebrahim Husain Aljassmi	192,044	0	0	192,044
Othman Ebrahim Al Askar	88,044	0	0	88,044
Muhammad Zarrug Rajab	134,232	0	0	134,232
Shari'a Members				
Shaikh Dr. Abdul Latif Mahmood Al Mahmood	168,216	0	908	169,124
Shaikh Dr. Nedham Mohamed Saleh Yacoubi	12,607	0	0	12,607
Shaikh Mohammed Jaffar Al Juffairi	0	0	0	0
Shaikh Adnan Abdulla Al Qattan	0	0	0	0
Shaikh Dr. Essam Khalaf Al Enizi	0	0	0	0
Approved Persons				
Hassan Amin Jarrar – Chief Executive Officer	206,573	0	130,264	336,837
Wesam A.Aziz Baqer – Head of Corporate Banking	22,375	0	48,394	70,769
Dalal Ahmed Al Qais – Head of Retail Banking	0	0	0	0
Khalid Mahmood – Head of Internal Audit & Shari'a	34,705	0	43,024	77,729
Ameer Abdul Ghani Dairi – Acting Chief Financial Officer	0	0	0	0
Fahim Ahmed Shafiqi – Chief Risk Officer	0	(15,000)	19,030	4,030
Dawood Khalil Al Ashhab – Head of Human Resources & General Services	2,918	(22,089)	19,171	0
Hassan A. Wahab Al Khan – Head of Central Operations	10,800	0	23,384	34,184
Hamad Farooq AlShaikh – Head of Shari'a Supervisory Department	0	0	0	0
Mahmood Qannati – Head of Marketing & Corporate Communications	0	0	0	0
Hussain Ebrahim Al Banna – Head of Treasury	0	0	0	0
Osama Ali Nasr – Head of IT	0	0	0	0
Maisa Jawdat Shunnar – Head of Strategy Implementation & Transformation	0	0	0	0
Khaled Waheeb AlNasser – Head of Internal Control	0	0	0	0
Nayef Naser Yusuf – Acting Head of Special Assets & Remedial	11,699	0	2,000	13,699
Khalid A.Rahman Nass – Head of Compliance & AML	0	0	0	0
Mohammed Adnan AlAnsari – Deputy MLRO	0	0	0	0
Hamad Hussain Al Qattan – Deputy MLRO	0	0	0	0

Corporate Governance Review
(Continued)

Performance-Linked Management Incentive Structure

BisB implements a Performance Management Scheme, which is linked to incentives and competencies on an annual basis, for management and staff. The Bank pays monthly salaries, allowances and bonuses for the Chief Executive, General Managers, Senior Managers and Managers.

Senior Management Remuneration

The aggregate Senior Management remuneration, including basic salaries and fixed allowances was BD 1.4 million for 2017.

Management Committees

A number of Management Committees are put in place to assist the CEO and Management Team in carrying out their duties, and to ensure that there is adequate supervision of the Bank's activities.

Management Committees - Membership & Objectives

Board Committee	Members	Objectives
Management Committee (MANCO)	**Hassan Amin Jarrar** Chairman Members • Wesam A.Aziz Baqer • Dalal Ahmed Al Qais • Ameer Abdul Ghani Dairi • Fahim Ahmed Shafiqi • Hassan A.Wahab Al Khan • Hussain Ebrahim Al Banna • Dawood Khalil Al Ashhab • Mahmood Qannati • Osama Ali Nasr • Khalid Mahmood • Khalid A.Rahman Nass • Maisa Jawdat Shunnar	The main objective of the MANCO is to review the Bank's strategy, business performance and updates, follow up on the Bank's internal and external projects. That, in addition to conducting a review of key risks and issues facing the Bank, and issuing resolutions for the smooth execution of work.
Asset & Liability Committee (ALCO)	**Hassan Amin Jarrar** Chairman Members • Ameer Abdul Ghani Dairi • Dalal Ahmed Al Qais • Fahim Ahmed Shafiqi • Hussain Ebrahim Al Banna • Wesam A.Aziz Baqer • Maisa Jawdat Shunnar	The main objective of ALCO is to manage and monitor the liquidity risk of the Bank on a coordinated and consistent basis.
Credit & Investment Committee (C&IC)	**Hassan Amin Jarrar** Chairman Members • Wesam A.Aziz Baqer • Fahim Ahmed Shafiqi	The main objectives of C&IC is to exercise due care, diligence and skill to oversee, direct and review the management of credit risk within the financing portfolio of the Bank and reviewing policies and strategies for achieving investment objectives.
Qard Al Hassan, Donation & Zakah Committee	**Mohammed Ahmed Janahi*** Chairman Members • Hamad Farooq AlShaikh • Ali Hassan Duaij • Khaled Waheeb AlNasser * Mohammed Ahmed Janahi last working day was on 24 Aug 2017.	The main objective of Qard Al Hassan, Donation and Zakah Committee is to discharge the Group's social responsibilities toward its society through distributing zakah, charity funds, donations & good faith Qard for marriage, medical treatments, etc.

Management Committees (Continued)

Management Committees - Membership & Objectives (Continued)

Board Committee	Members	Objectives
Provisioning Committee	Hassan Amin Jarrar Chairman Members • Mohammed Ahmed Janahi* • Fahim Ahmed Shafiqi • Ameer Abdul Ghani Dairi • Khalid Mahmood (Observer) • Saleh Al Mehri (Secretary) * Mohammed Ahmed Janahi last working day was on 24 Aug 2017.	The main objective of Provisioning Committee is to assist the CEO in reviewing the Bank's provisions. In addition, the Committee would be responsible in formulating provision policies with a view to maintain the strategic risk level objectives of the Bank.

Succession Planning

Succession planning in the Bank is driven by our Business strategy and future focused. The primary objective of the plan is to develop our people to meet future demands of the Bank. The output is better internally resourcing and highly capable people filling our key positions, our process ensure that we meet our regulatory commitments.

Compliance

In accordance with CBB guidelines, the Bank has a designated Head of Compliance, who is independent and reports functionally to the Audit & Corporate Governance Committee and administratively to the Chief Executive Officer. The Head of Compliance has direct access to Senior Management and all confidential information of the Bank. The Compliance function acts as the central coordinator for all regulatory matters relating to the CBB, Bahrain Bourse, and other regulatory bodies. BisB has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain, including appropriate anti- money laundering policies.

Anti-Money Laundering

BisB has a designated Money Laundering Reporting Officer (MLRO). The Bank has implemented an anti-money laundering and terrorism financing policy, and annually trains its staff on the identification and reporting of suspicious activities and transactions. BisB follows prudent practices related to 'Customer Due Diligence', 'Beneficial Ownership' and 'Know Your Customer' principles. In accordance with CBB requirements, the MLRO regularly reviews the effectiveness of the Bank's AML/CFT procedures, systems and controls.

Code of Conduct

BisB conducts itself in accordance with the highest standards of ethical behavior. A Code of Business Conduct has been developed to govern the personal and professional conduct of all stakeholders. The Code applies to directors, management, staff and temporary workers; and independent contractors and consultants, whether engaged by or otherwise representing the Bank and its interests.

Disclosure and Communications

BisB conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels include an annual report, corporate brochure and website, and regular announcements in the appropriate local media. As part of its disclosure and communication strategy, the Bank's website (www.bisb.com) is the repository of financial information, together with Board of Directors' reports and financial commentary, financial statements, relevant information on BisB such as its key products and services, and press releases.

Note: Additional information is included in the BisB Corporate Governance report 2017, which is posted on the Bank's website: www.bisb.com.

Sharia'a Supervisory Board Report

For the year ended on 31/12/2017

In The Name of Allah, most Gracious,

Most Merciful Peace and Blessings Be Upon His Messenger.

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

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

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

- The Sharia'a Supervisory Board monitored the operations, related to the Bank throughout the year ended on 31st December 2017 to express opinion on the Bank's adherence to the provisions and principles of Islamic Sharia'a in its activities by following the fatwas, decisions and the specific guidelines issued from our side.
- The Sharia'a Supervisory Board believes that ensuring the conformity of Bank's activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report to you.
- We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a and Fatwas and decisions of the Sharia'a Board.
- Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Sharia'a Department in conformity with the methodology approved by the Sharia'a Board.
- The Sharia'a Internal Audit department performed its mission of auditing the transactions executed by the Bank and submitted its periodic reports to the Sharia'a Supervisory Board, which confirmed the Bank's adherence in its dealings and investments with the Sharia'a Board's fatwas and decisions.
- The 13 reports submitted by Internal Sharia Audit Department to the Sharia'a Supervisory Board included results of auditing the files, contracts, executed deals in fulfillment to the Sharia'a Board annual approved audit plan. The Sharia'a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Sharia principles and Fatwas and decisions of the Sharia'a Board.
- The Sharia Board and its Committees held (14) meetings during the year and issued (116) decisions and fatwas, and approved (88) contracts.
- The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2017, the income statement, the attached notes and the Zakat calculation methods. The Sharia'a Supervisory Board believes that:

1. All the Financial Statements inspected by the Sharia'a Board conform to what has been approved by the Board, and to the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions AAOIFI.
2. Contracts, and transactions conducted by the Bank throughout were in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.
3. The distribution of profit and allocation of losses on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board and in accordance to Islamic Sharia.
4. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'a, have been directed to the Charity and Donations Fund.
5. Zakah was calculated according to the provisions and principles of Islamic Sharia'a, by the net invested assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the financial report.
6. The Bank was committed to the Sharia'a standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).

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

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

Consolidated Financial Statements

Contents

Independent Auditors' Report

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiary (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of income, cash flows, changes in owners' equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

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

Report on other regulatory requirements

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

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

b) the financial information contained in the chairman's statement is consistent with the consolidated financial statements;

c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

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

kpmg

KPMG Fakhro

Partner Registration No. 100

12 February 2018

Consolidated Statement of Financial Position

As at 31 December 2017

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

The consolidated financial statements, which consist of pages 45 to 81, were approved by the Board of Directors on 12 February 2018 and signed on its behalf by:

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

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

Consolidated Income Statement

For the year ended 31 December 2017

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

Dr. Esam Abdulla Fakhro
Chairman

Brig. Ebrahim Abdulla Al Mahmood
Vice Chairman

Hassan Amin Jarrar
Chief Executive Officer

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

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

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

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2017

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

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

Consolidated Statement of Sources and Uses of Good Faith Qard Fund

For the year ended 31 December 2017

	Qard Hasan receivables BD'000	Funds available for Qard Hasan BD'000	Total BD'000
Balance at 1 January 2017	**65**	**63**	**128**
Uses of Qard fund			
Marriage	**13**	**(13)**	**-**
Others (Waqf)	**24**	**(24)**	**-**
Total uses during the year	**37**	**(37)**	**-**
Repayments	**(31)**	**31**	**-**
Balance at 31 December 2017	**71**	**57**	**128**
Balance at 1 January 2016	60	68	128
Uses of Qard fund			
Marriage	5	(5)	-
Others (Waqf)	21	(21)	-
Total uses during the year	26	(26)	-
Repayments	(21)	21	-
Balance at 31 December 2016	65	63	128

	2017 BD'000	2016 BD'000
Sources of Qard fund		
Contribution by the Bank	**125**	125
Donation	**3**	3
Total sources of Qard fund	**128**	128

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

Consolidated Statement of Sources and Uses of Zakah and Charity Fund

For the year ended 31 December 2017

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

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

Notes to the Consolidated Financial Statements

31 December 2017

1. REPORTING ENTITY

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

a. New standards, amendments, and interpretations

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

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

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

FAS 30 – Impairment, credit losses and onerous commitments

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

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit losses approach, 2) Net Realizable Value approach ("NRV") and 3) Impairment approach.

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

i. Assets and exposures subject to credit risk (subject to credit losses approach):
- Receivables; and
- Off-balance sheet exposures.

ii. Inventories (subject to net realizable value approach); and

iii. Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach) , excluding inventories.

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

Notes to the Consolidated Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments, and interpretations (Continued)

New standards, amendments and interpretations issued but not yet effective (Continued)

FAS 30 – Impairment, credit losses and onerous commitments (Continued)

Expected Credit Losses (ECL)

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

- Determining criteria for Significant Increase in Credit Risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Identifying groups of similar financial assets for the purpose of measuring ECL.

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

The Group estimates the FAS 30 transition amount will reduce shareholders’ equity by approximately BD 13.7 million as at 1 January 2018. The estimated impact relates primarily to the increase in the allowance for credit losses under the new impairment requirements. The Group continues to revise, refine and validate the impairment models and related process controls which may change the actual impact on adoption.

Early adoption

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

b. Statement of Compliance

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

c. Basis of preparation

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

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group’s consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.cc.

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

d. Basis of consolidation

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

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

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

e. Cash and cash equivalents

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

Notes to the Consolidated Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Placements with and borrowings from financial institutions

Placements with financial institutions

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

Borrowings from financial institutions

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

g. Financing assets

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

h. Murabaha financing

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

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

i. Musharaka financing

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

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

j. Investment securities

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

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

Debt type instruments carried at amortised cost

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

Equity type instruments carried at fair value through equity

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

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

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

Notes to the Consolidated Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Measurement principles

Fair value measurement

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

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

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

Amortised cost

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

l. Investment in associates

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

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

The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates and the carrying value and recognises this amount in the consolidated income statement.

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

m. Ijarah Muntahia Bittamleek

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

n. Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured to fair value and changes in fair value (only gains) are recognised in a property fair value reserve in the consolidated statement of changes in owners' equity.

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

Notes to the Consolidated Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Property and equipment

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

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

p. Equity of investment accountholders

Equity of investment account holders are funds held by the Bank in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Bank to invest the account holders' funds in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Bank charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve) and deducting the Bank's share of income as a Mudarib. The allocation of income is determined by the management of the Bank within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Bank and are not charged separately to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH.

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

q. Investment risk reserve

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

r. Profit equalisation reserve

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

s. Zakah

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

t. Provisions

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

u. Dividends and board remuneration

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

Notes to the Consolidated Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v. Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

w. Treasury shares

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

x. Earnings prohibited by Shari'a

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

y. Offsetting

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

z. Income recognition

Murabaha and Wakala

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

Musharaka

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

Sukuk

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

Placements with financial institutions

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

Ijarah Muntahia Bittamleek

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

Dividend income

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

Notes to the Consolidated Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

z. Income recognition (Continued)

Fee and commission income

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

aa. Foreign currencies

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

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

bb. Impairment of financial assets

An assessment is made at each consolidated financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of financing facility or advance by the Group on the terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrower or issuers in the group or economic conditions that correlate with the defaults in the group. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated income statement. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. Impairment is determined as follows:

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

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

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

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

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

All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar credit risk characteristics. In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Notes to the Consolidated Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Going concern

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

Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as debt type instruments carried at fair value through equity or amortised cost, or equity-type instruments carried at fair value through equity or fair value through income statement. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2.j].

Impairment of equity investments

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

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

For unquoted equity investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment. In making this judgment, the Bank evaluates among other factors, evidence of a deterioration in the financial health of the investee, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

Impairment of financing assets

Financing assets are evaluated for impairment on a basis described in accounting policy [refer to note 2.bb]. Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying assets/ collaterals. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department.

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

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

dd. Trade date accounting

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

ee. Customers' current accounts

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

Notes to the Consolidated Financial Statements

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ff. Employees' benefits

i. Short-term benefits

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

ii. Post-employment benefits

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

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

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

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

iii. Share based employee incentive scheme

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

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

gg. Financial guarantees

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

hh. Repossessed assets

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

ii. Statutory reserve

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

jj. URIA protection scheme

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

Notes to the Consolidated Financial Statements

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3. CASH AND BALANCES WITH BANKS AND CENTRAL BANK

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

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

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

4. PLACEMENTS WITH FINANCIAL INSTITUTIONS

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

5. FINANCING ASSETS

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

5.1 Murabaha

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

Non-performing Murabaha financing outstanding as at 31 December 2017 amounted to BD 34,436 thousand (2016: BD 30,951 thousand). The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

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

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

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

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5. FINANCING ASSETS (CONTINUED)

5.2 Musharaka

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

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

6. INVESTMENT SECURITIES

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

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

Notes to the Consolidated Financial Statements

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7. INVESTMENT IN ASSOCIATES

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

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

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

Investment in associates comprise of:

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

Notes to the Consolidated Financial Statements

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8. IJARAH MUNTAHIA BITTAMLEEK

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

9. IJARAH RENTAL RECEIVABLES

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

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

10.PROPERTY AND EQUIPMENT

	2017						
	Lands BD'000	Buildings BD'000	Fixture and fitting BD'000	Equipment BD'000	Furniture BD'000	Work in progress BD'000	Total BD'000
Cost:							
At 1 January	**5,521**	**7,651**	**3,814**	**10,367**	**883**	**558**	**28,794**
Additions	**-**	**-**	**23**	**1,152**	**7**	**11**	**1,193**
At 31 December	**5,521**	**7,651**	**3,837**	**11,519**	**890**	**569**	**29,987**
Depreciation:							
At 1 January	**-**	**1,962**	**3,144**	**8,298**	**743**	**-**	**14,147**
Charge for the year	**-**	**261**	**260**	**989**	**60**	**-**	**1,570**
At 31 December	**-**	**2,223**	**3,404**	**9,287**	**803**	**-**	**15,717**
Net Book Value	**5,521**	**5,428**	**433**	**2,232**	**87**	**569**	**14,270**

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10. PROPERTY AND EQUIPMENT (CONTINUED)

	2016						
	Lands BD'000	Buildings BD'000	Fixture and fitting BD'000	Equipment BD'000	Furniture BD'000	Work in progress BD'000	Total BD'000
Cost:							
At 1 January	5,521	7,651	3,695	9,782	869	516	28,034
Additions	-	-	119	585	14	42	760
At 31 December	5,521	7,651	3,814	10,367	883	558	28,794
Depreciation:							
At 1 January	-	1,699	2,853	7,393	683	-	12,628
Charge for the year	-	263	291	905	60	-	1,519
At 31 December	-	1,962	3,144	8,298	743	-	14,147
Net Book Value	5,521	5,689	670	2,069	140	558	14,647

11. INVESTMENT IN REAL ESTATE

	2017 BD'000	2016 BD'000
Land	**27,796**	27,221
Buildings	**2,035**	2,289
	29,831	29,510

	2017 BD'000	2016 BD'000
Movement in investment in real estate:		
At 1 January	**29,510**	45,045
Capitalized expenditure	**28**	-
Disposal	**(372)**	(13,728)
Fair value changes	**665**	(1,807)
At 31 December	**29,831**	29,510

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

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

12. OTHER ASSETS

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

13. BORROWINGS FROM FINANCIAL INSTITUTIONS

During the year, the Group obtained three medium term Murabaha facilities of BD 63,488 thousand secured by pledge over Sukuk of BD 25,057 thousand maturing on 22 March 2018, 29 March 2018 and 17 May 2018, and a syndicated financing facility of BD 38,088 thousand on a clean basis maturing on 28 September 2018. The average rate of borrowings is 3.12%.

Notes to the Consolidated Financial Statements

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14. OTHER LIABILITIES

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

15. EQUITY OF INVESTMENT ACCOUNTHOLDERS

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

15.1 Equity of investment accountholders balances

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

15.2 Assets in which IAH funds were invested

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

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

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

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

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

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15. EQUITY OF INVESTMENT ACCOUNTHOLDERS (CONTINUED)

15.3 Profit distribution by account type

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

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

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

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

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

15.4 Equity of Investment Accountholders Reserves

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

15.5 Return on equity of investment accountholders

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

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16. OWNERS' EQUITY

	2017 BD'000	2016 BD'000
a. Share capital		
i. Authorised		
2,000,000,000 shares (2016: 2,000,000,000 shares) of BD 0.100 each	**200,000**	200,000
ii. Issued and fully paid up		
1,013,389,130 shares (2016: 1,013,389,130 shares) of BD 0.100 each	**101,339**	101,339

	2017		2016
b. Treasury shares	Number of shares	BD'000	BD'000
At 31 December	**5,576,532**	**864**	563

	2017 BD'000
Cost of treasury shares	**864**
Market value of treasury shares	**781**

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

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

c. Reserves

Statutory reserve

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

General reserve

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

Real estate fair value reserve

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

Investment fair value reserve

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

d. Additional information on shareholding pattern

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

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

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16. OWNERS' EQUITY (CONTINUED)

d. Additional information on shareholding pattern (Continued)
ii. The Group has only one class of shares and the holders of these shares have equal voting rights.

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

	2017			2016		
	Number of shares	**Number of shareholders**	**% of total outstanding shares**	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	**145,805,613**	**3,232**	**14.38%**	145,893,657	3,266	14.38%
1% and less than 5%	**59,769,380**	**3**	**5.90%**	59,769,380	3	5.90%
5% and less than 10%	**72,729,830**	**1**	**7.18%**	72,641,786	1	7.18%
10% and less than 50%	**735,084,307**	**4**	**72.54%**	735,084,307	4	72.54%
	1,013,389,130	**3,240**	**100.00%**	1,013,389,130	3,274	100.00%

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

Categories:

	2017		2016	
	Number of shares	**Number of directors**	Number of shares	Number of directors
Less than 1%	**464,320**	**4**	414,320	3

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

	2017		2016	
	Number of shares	**% of Shareholding**	Number of shares	% of Shareholding
Directors	**464,320**	**0.046%**	414,320	0.041%
Shari'a supervisory members	**181,731**	**0.018%**	180,823	0.018%
Senior management	**777,167**	**0.077%**	418,496	0.041%
	1,423,218	**0.141%**	1,013,639	0.100%

e. Proposed appropriations
The Board of Directors propose the appropriation for zakah of BD 265 thousand in 2017 (2016: BD 137 thousand), charitable donations of BD 200 thousand in 2017 (2016:BD nil) and bonus shares as dividends amounting to BD 5,039 thousand (2016: cash dividend of 5% amounting to BD 5,051 thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

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17. COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

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

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

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

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

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

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

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

18. CAPITAL ADEQUACY

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

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

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

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

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

	2017 BD'000	2016 BD'000
CET 1 Capital before regulatory adjustments	**116,125**	111,111
Less: regulatory adjustments	**-**	-
CET 1 Capital after regulatory adjustments	**116,125**	111,111
T 2 Capital adjustments	**13,283**	11,961
Regulatory Capital	**129,408**	123,072

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18. CAPITAL ADEQUACY (CONTINUED)

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

	2017 BD'000	2016 BD'000
Risk weighted exposure:		
Total Credit Risk Weighted Assets	**571,069**	527,820
Total Market Risk Weighted Assets	**10,702**	12,226
Total Operational Risk Weighted Assets	**86,085**	66,722
Total Regulatory Risk Weighted Assets	**667,856**	606,768
Investment risk reserve (30% only)	**353**	227
Profit equalization reserve (30% only)	**374**	374
Total Adjusted Risk Weighted Exposures	**667,129**	606,167
Capital Adequacy Ratio	**19.40%**	20.30%
Tier 1 Capital Adequacy Ratio	**17.41%**	18.33%
Minimum requirement	**12.5%**	12.5%

19. INCOME FROM FINANCING

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

20. INCOME FROM INVESTMENT SECURITIES

	2017 BD'000	2016 BD'000
Dividend income	**513**	739
	513	739

21. INCOME FROM INVESTMENT IN REAL ESTATE

	2017 BD'000	2016 BD'000
Loss on sale	**(39)**	(843)
Rental income	**371**	362
Impairment charge	**(119)**	(82)
	213	(563)

22. OTHER INCOME

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

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23. OTHER OPERATING EXPENSES

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

24. IMPAIRMENT PROVISIONS

24.1 Impairment provisions on financing

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

The above impairment provision relates to the following:	2017 BD'000	2016 BD'000
Murabaha financing	**14,020**	25,977
Musharaka financing	**1,147**	724
Ijarah Muntahia Bittamleek	**13,175**	13,270
	28,342	39,971

24.2 Impairment provisions on investments

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

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

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

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

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25.ZAKAH

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

26.EARNINGS PER SHARE

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

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

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

27.RELATED PARTY TRANSACTIONS

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

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

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

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27. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Compensation of the key management personnel is as follows:

	2017 BD'000	2016 BD'000
Short term employee benefits	**1,178**	1,226
Other long term benefits	**261**	196
	1,439	1,422

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

28. RISK MANAGEMENT

Introduction

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

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

Risk management objectives

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

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

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28. RISK MANAGEMENT (CONTINUED)

Risk management objectives (Continued)

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

i. Adequate capital level;
ii. Stable profitability and growth;
iii. Sufficient liquidity; and
iv. Sound reputation.

Structure and Organization of the Risk Management Function

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

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

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

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

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

Risk Measurement and Reporting Systems

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

a. Credit Risk

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

Credit Risk Mitigation

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

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

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

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

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

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

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28. RISK MANAGEMENT (CONTINUED)

a. Credit Risk (Continued)

Gross maximum exposure to credit risk

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

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

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

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

Risk concentrations of the maximum exposure to credit risk

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

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

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2017 BD'000	31 December 2016 BD'000	**31 December 2017 BD'000**	31 December 2016 BD'000	**31 December 2017 BD'000**	31 December 2016 BD'000
Geographical region						
Middle East	**1,194,057**	1,001,910	**1,091,639**	924,205	**129,393**	96,787
North America	**10,473**	5,801	**229**	83	**-**	-
Europe	**24,117**	14,296	**13,628**	579	**-**	-
Other	**-**	-	**881**	849	**-**	-
	1,228,647	1,022,007	**1,106,377**	925,716	**129,393**	96,787
Industry sector						
Trading and manufacturing	**105,018**	70,899	**19,022**	42,443	**20,507**	23,278
Aviation	**-**	-	**53,029**	1,977	**-**	820
Real Estate	**211,603**	189,628	**43,352**	22,266	**45,068**	9,904
Banks and financial institutions	**171,187**	135,883	**216,833**	131,837	**3,205**	916
Personal / Consumer	**391,662**	380,532	**472,366**	441,795	**33,085**	27,082
Government Organization	**251,777**	132,360	**165,358**	143,222	**21,081**	500
Others	**97,400**	112,705	**136,417**	142,176	**6,447**	34,287
	1,228,647	1,022,007	**1,106,377**	925,716	**129,393**	96,787

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28. RISK MANAGEMENT (CONTINUED)

a. Credit Risk (Continued)

Credit quality per class of financial assets

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

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

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

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

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28. RISK MANAGEMENT (CONTINUED)

b. Liquidity Risk

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

Maturity profile of Group's assets and liabilities

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

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

	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	No fixed maturity BD '000	Total BD '000
Assets								
Cash and balances with the banks and Central Bank	34,461	-	-	-	-	-	35,205	69,666
Placements with financial institutions	80,845	-	-	-	-	-	-	80,845
Financing assets	23,595	28,150	29,159	63,784	65,411	351,723	-	561,822
Ijarah Muntahia Bittamleek and rental recievables	10,193	8,309	162	56	4,222	155,938	-	178,880
Investment securities	11,295	40,179	27,603	10,167	34,766	103,896	30,493	258,399
Investment in associates	-	-	-	-	-	-	23,739	23,739
Investment in real estate	-	-	-	-	-	-	29,831	29,831
Property and equipment	-	-	-	-	-	-	14,270	14,270
Other assets	5	310	397	357	1,527	8,599	-	11,195
Total assets	160,394	76,948	57,321	74,364	105,926	620,156	133,538	1,228,647
Liabilities and Equity of Investment Accountholders								
Placements from financial institutions	61,086	6,786	-	-	-	-	-	67,872
Borrowings from financial institutions	-	63,488	-	38,088	-	-	-	101,576
Customers' current accounts	26,333	-	-	-	-	105,333	-	131,666
Other liabilities	11,507	-	-	-	-	-	-	11,507
Equity of investment accountholders	206,961	102,475	146,113	72,960	9,334	255,913	-	793,756
Total liabilities and equity of investment accountholders	305,887	172,749	146,113	111,048	9,334	361,246	-	1,106,377
Liquidity gap	(145,493)	(95,801)	(88,792)	(36,684)	96,592	258,910	133,538	122,270
Cumulative liquidity gap	(145,493)	(241,294)	(330,086)	(366,770)	(270,178)	(11,268)	122,270	-

Notes to the Consolidated Financial Statements

31 December 2017

28. RISK MANAGEMENT (CONTINUED)

b. Liquidity Risk (Continued)

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

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

c. Market Risk

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

i. Profit rate risk

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

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

ii. Equity price risk

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

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

Notes to the Consolidated Financial Statements

31 December 2017

28. RISK MANAGEMENT (CONTINUED)

c. Market Risk (Continued)

ii. Equity price risk (Continued)

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

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

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

iii. Foreign exchange risk

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

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

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

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

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

iv. Commodity risk

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

d. Operational Risk

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

Notes to the Consolidated Financial Statements

31 December 2017

29. SEGMENTAL INFORMATION

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

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

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

Segment information is disclosed as follows:

	31 December 2017			
	Corporate BD'000	**Retail BD'000**	**Investment BD'000**	**Total BD'000**
Total net income	**10,732**	**27,170**	**5,004**	**42,906**
Total expenses	**(5,043)**	**(18,154)**	**(3,371)**	**(26,568)**
Provision for impairment	**(7,399)**	**529**	**673**	**(6,197)**
Profit / (loss) for the year	**(1,710)**	**9,545**	**2,306**	**10,141**
Other information				
Segment assets	**330,624**	**455,535**	**442,488**	**1,228,647**
Segment liabilities, and equity	**450,926**	**517,873**	**259,848**	**1,228,647**

	31 December 2016			
	Corporate BD'000	Retail BD'000	Investment BD'000	Total BD'000
Total income	12,928	27,868	876	41,672
Total expenses	(3,791)	(17,140)	(2,589)	(23,520)
Provision for impairment	251	(2,342)	(7,641)	(9,732)
Profit / (loss) for the year	9,388	8,386	(9,354)	8,420
Other information				
Segment assets	256,996	452,746	312,265	1,022,007
Segment liabilities, and equity	284,279	512,642	225,086	1,022,007

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

Notes to the Consolidated Financial Statements

31 December 2017

30. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

Fair values of quoted securities / Sukuk are derived from quoted market prices in active markets, if available. In case of financing assets, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges, it is expected that the current value would not be materially different to fair value of these assets. Other than equity investments and managed funds carried at cost of BD 30,493 thousand (2016: BD 31,760 thousand), the estimated fair values of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

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

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

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

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

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

2017	Level 1 BD'000	Level 2 BD'000	Level 3 BD'000	Total BD'000
Investments carried at fair value through equity				
Quoted equity securities	-	-	-	-
2016				
Investments carried at fair value through equity				
Quoted equity securities	688	-	-	688

Transfers between Level 1, Level 2 and Level 3

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

31. EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

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

32. SHARI'A SUPERVISORY BOARD

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

33. SOCIAL RESPONSIBILITY

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

34. COMPARATIVE FIGURES

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

Risk and Capital Management Disclosure

Contents

Risk and Capital Management Disclosure

31 December 2017

1. Background

The Public Disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-1: Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Bahrain Islamic Bank B.S.C. (the "Bank") being a locally incorporated Bank with a retail banking license, and its subsidiary together known as (the "Group").

The Board of Directors seeks to optimise the Group's performance by enabling the various Group business units to realise the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the Group risk policy framework.

2. Statement of Financial Position Under the Regulatory scope of Consolidation

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

Table – 1. Statement of Financial Position (PD- 1.3.14)

	Statement of Financial position as per in published financial statements 2017 BD'000	Statement of Financial position as per Regulatory Reporting 2017 BD'000	Reference
Assets			
Cash and balances with banks and Central Bank	69,666	69,666	
Placements with financial institutions	80,845	80,845	
Gross financing assets	576,990	576,990	
Less: specific impairment provisions	(6,119)	(6,119)	
Less: collective impairment provisions	(9,049)	-	*a*
Net financing assets	561,822	570,871	
Investment securities	258,399	258,399	
Ijarah Muntahia Bittamleek	164,397	164,397	
Gross ijarah rental receivables	27,658	27,658	
Less: specific impairment provisions	(11,277)	(11,277)	
Less: collective impairment provisions	(1,898)	-	*a*
Net ijarah rental receivables	14,483	16,381	
Investment in associates	23,739	23,739	
Investment in real estate	29,831	29,831	
Property and equipment	14,270	14,270	
Other assets	11,195	11,195	
Total Assets	1,228,647	1,239,594	
Liabilities, Equity of Investment Accountholders and Owners' Equity			
Liabilities			
Placements from financial institutions	67,872	67,872	
Borrowings from financial institutions	101,576	101,576	
Customers' current accounts	131,666	131,666	
Other liabilities	11,507	11,507	
Total Liabilities	312,621	312,621	
Equity of Investment Accountholders	793,756	793,756	
Owners' Equity			
Share capital	101,339	101,339	b
Treasury shares	(864)	(864)	c
Shares under employee share incentive scheme	(498)	(498)	d
Share premium	98	98	e
Statutory reserve	2,977	2,977	f
Real estate fair value reserve	6,145	6,145	g
Investment securities fair value reserve	745	745	h
Collective impairment provisions	-	10,947	i
of which: amount eligible for Tier 2 capital subject to a maximum of 1.25% of credit risk weighted assets	-	7,138	*j*
of which: amount ineligible for Tier 2 capital	-	3,809	*k*
Profit for the year	10,141	10,141	l
Retained earnings brought forward	2,187	2,187	m
Total Owners' Equity	122,270	133,217	
Total Liabilities, Equity of Investment Accountholders and Owners' Equity	1,228,647	1,239,594	

Risk and Capital Management Disclosure

31 December 2017

3. Capital Adequacy

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

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

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds. To assess its capital adequacy requirements in accordance with CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk, and Standardised Approach for its Market Risk. All assets funded by profit sharing investment accounts are subject to Board approval.

All transfer of funds or regulatory capital within the Group is carried out after proper approval process.

For the purposes of guidance every table was cross referenced with the relevant paragraph number of the Central Bank of Bahrain's Public Disclosures Module.

Table – 2. Capital Structure (PD-1.3.12, 1.3.13, and 1.3.14)

The following table summarises the eligible capital as of 31 December 2017 after deductions for Capital Adequacy Ratio (CAR) calculation:

	CET 1 BD'000	T2 BD'000	Source Based on reference letters of the statement of financial position under the regulatory scope of consolidation
Components of capital			
Issued and fully paid ordinary shares	101,339	-	b
General reserves	-	-	
Legal / statutory reserves	2,977	-	f
Share premium	98	-	e
Retained earnings brought forward	2,187	-	m
Current year profits	10,141		l
Unrealized gains and losses on available for sale financial instruments	745	-	h
Less:			
Employee stock incentive program funded by the bank (outstanding)	498	-	d
Treasury shares	864	-	c
Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1 d)	116,125	-	
Assets revaluation reserve - property, plant, and equipment		6,145	g
General financing loss provisions		7,138	j
Total Available AT1 & T2 Capital		13,283	
Total Capital		129,408	

	Amount of exposures BD'000
Total Credit Risk Weighted Assets	571,069
Total Market Risk Weighted Assets	10,702
Total Operational Risk Weighted Assets	86,085
Total Regulatory Risk Weighted Assets	667,856
Investment risk reserve (30% only)	353
Profit equalization reserve (30% only)	374
Total Adjusted Risk Weighted Exposures	667,129
CAPITAL ADEQUACY RATIO	19.40%
Minimum requirement	12.5%

Risk and Capital Management Disclosure

31 December 2017

3. Capital Adequacy (Continued)

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

The following table summarises the amount of exposures as of 31 December 2017 subject to standardised approach of credit risk and related capital requirements by type of Islamic financing contracts:

	Exposure			Risk Weighted Assets*			Capital Requirements		
	Self-Financed BD'000	IAH BD'000	Total BD'000	Self-Financed BD'000	IAH BD'000	Total BD'000	Self-Financed BD'000	IAH BD'000	Total BD'000
Credit Risk Weighted Assets									
Funded									
Cash and balances with banks and Central Bank	39,332	30,334	69,666	8,918	-	8,918	1,115	-	1,115
Murabaha and Wakala receivables from banks	80,845	-	80,845	23,779	-	23,779	2,972	-	2,972
Murabaha receivables*	111,983	351,420	463,403	102,198	89,620	191,818	12,775	11,203	23,978
Musharaka receivables*	25,720	81,748	107,468	23,617	20,569	44,186	2,952	2,571	5,523
Investment in sukuk	49,121	178,785	227,906	7,268	7,492	14,760	909	937	1,846
Investment in equity and funds	19,800	10,693	30,493	64,182	12,370	76,552	8,023	1,546	9,569
Ijarah Muntahia Bittamleek*	49,233	131,545	180,778	29,454	23,878	53,332	3,682	2,985	6,667
Investment in associates	23,739	-	23,739	55,905	-	55,905	6,988	-	6,988
Investment in real estate	24,502	5,329	29,831	48,002	3,498	51,500	6,000	437	6,437
Property and equipment	14,270	-	14,270	14,271	-	14,271	1,784	-	1,784
Other assets	3,515	7,680	11,195	3,515	4,011	7,526	439	501	940
	442,060	797,534	1,239,594	381,109	161,438	542,547	47,639	20,180	67,819
Unfunded									
Commitments and contingent liabilities	129,393	-	129,393	28,522	-	28,522	3,565	-	3,565
Total Credit Risk Weighted Assets	571,453	797,534	1,368,987	409,631	161,438	571,069	51,204	20,180	71,384
Total Market Risk Weighted Assets	-	-	-	10,702	-	10,702	-	-	-
Total Operational Risk Weighted Assets	-	-	-	86,085	-	86,085	-	-	-
Total RWA	571,453[(1)]	797,534[(2)]	1,368,987	506,418	161,438	667,856	51,204	20,180	71,384

* The risk weighted assets are net off credit risk mitigant.

(1) The exposure is gross of collective impairment of BD 7,169 thousand.

(2) The exposure is gross of collective impairment of BD 3,778 thousand.

Risk and Capital Management Disclosure

31 December 2017

3. Capital Adequacy (Continued)

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

The following table summarises the amount of exposures as of 31 December 2017 subject to standardised approach of market risk and related capital requirements:

Market Risk - Standardised Approach	
Foreign exchange risk (BD'000)	**856**
Total of Market Risk - Standardised Approach (BD'000)	**856**
Multiplier	**12.5**
RWE for CAR Calculation (BD'000)	**10,700**
Total Market Risk Exposures (BD'000)	**10,700**
Total Market Risk Exposures - Capital Requirement (BD'000)	**1,338**

Table – 5. Capital requirements for operational risk (PD-1.3.30 (a & b) and PD-1.3.19)

The following table summarises the amount of exposures as of 31 December 2017 subject to basic indicator approach of operational risk and related capital requirements:

Indicators of operational risk	
Average Gross income (BD'000)	**45,912**
Multiplier	**12.5**
	573,900
Eligible Portion for the purpose of the calculation	**15%**
Total Operational Risk Exposure (BD'000)	**86,085**
Total Operational Risk Exposures - Capital Requirement (BD'000)	**10,761**

Table – 6. Capital Adequacy Ratios (PD-1.3.20)

The following are Capital Adequacy Ratios as of 31 December 2017 for total capital and CET 1 capital:

	Total capital ratio	CET 1 capital ratio
Top consolidated level	**19.40%**	**17.41%**

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management

4.1 Bank-wide Risk Management Objectives

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

In addition to satisfying the minimum regulatory capital requirements of CBB, the Group seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business and maintain appropriate internal capital levels as per the ICAAP framework. The main objective of the Group's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Group undertakes in the course of its business.

The Group has an established internal capital adequacy assessment process (ICAAP) as per the requirements under Pillar III of Basel III. ICAAP prescribed measures are designed to ensure appropriate identification, measurement, aggregation and monitoring of the Group's risk. It also defines an appropriate level of internal capital in relation to the Group's overall risk profile and business plan.

4.2 Strategies, Processes, and Internal Controls

4.2.1 Group's risk strategy

Risk Charter defines the Group's risk strategy. Comprehensive Risk Management Policy Framework is approved by the Board. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework for the Group.

The risk charter identifies risk objectives, policies, strategies, and risk governance both at the Board and management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses.

Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents.

The Group is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require comprehensive controls and ongoing oversight. The risk management framework summarises the spirit behind Basel III, which includes management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities, and correcting deficiencies.

4.2.2 Credit risk

The Group manages its credit risk exposure by evaluating each new product/activity with respect to the credit risk introduced by it. The Group has established a limit structure to avoid concentration of risks for counterparty, sector, and geography.

4.2.3 Market risk

The Group proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions although they are insignificant. The Group regularly carries out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio.

The Group has established a limit structure to monitor and control the market risk in its equity type instruments portfolio. These limits include maximum Stop-loss limits, position limits, and maturity limits. As at 31 December 2017, the group did not have any trading portfolio.

4.2.4 Operational risk

The Group has carried out Risk Control Self-Assessment ("RCSA") exercises on a regular basis to record potential risks, controls and events on a continuous basis across different business and support functions.

The Group has established a clear segregation of duties, through documentation and implementation of policies and procedures. This ensures objectivity, security, and avoids conflicts of interest. Maker checker concept and dual eye principles are applied across the Group, where possible.

4.2.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.2 Strategies, Processes, and Internal Controls (Continued)

4.2.6 Profit rate risk

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

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

4.2.7 Displaced Commercial Risk

Displaced commercial risk ("DCR") refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is underperforming as compared with competitors rates.

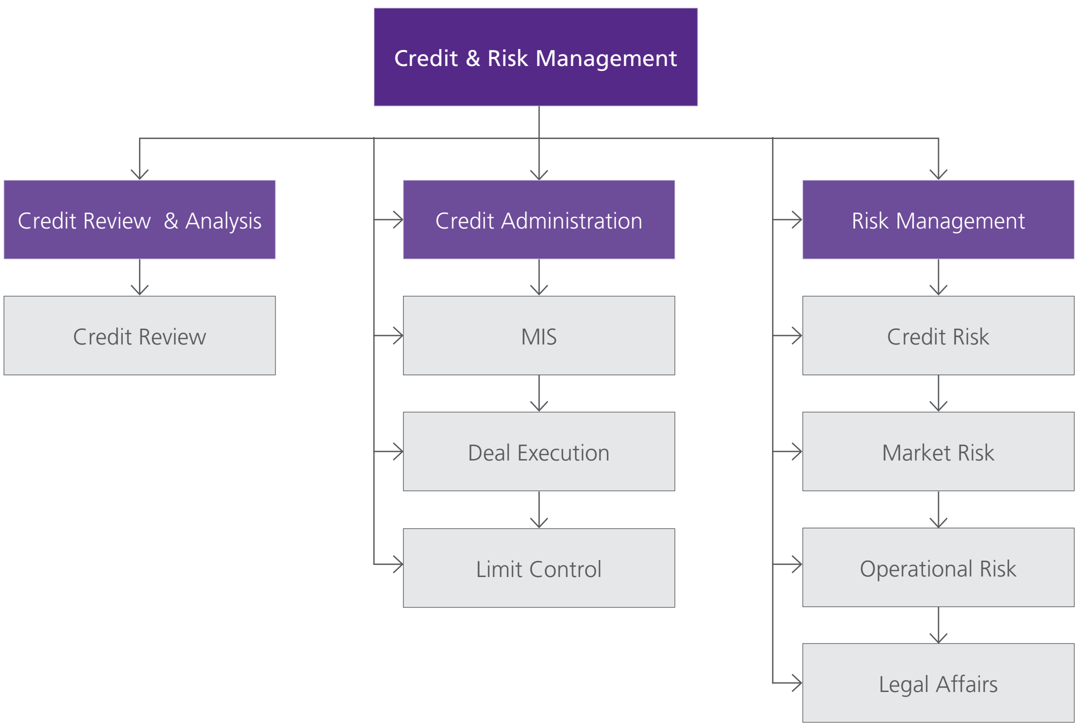
The Group manages its Displaced Commercial Risk by placing gap limits between the returns paid to investors and market returns.

The Group manages its Displaced Commercial Risk as outlined in the Risk Charter of the Group. The Group may forego its mudarib fee in case displaced commercial risk arises. The Group benchmarks its rates with other leading banks in the market.

All the above strategies used have been effective throughout the reporting year.

4.3 Structure and Organisation of Risk Management Function

Risk Management Structure includes all levels of authorities (including Board level Risk committee), organisational structure, people, and systems required for the smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:



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

a Establishing overall policies and procedures; and

b. Delegating authority to Executive Committee, Credit and Investment Committee, the Chief Executive Officer and further delegation to management to approve and review.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.4 Risk Measurement and Reporting Systems

Based on risk appetite of the Group, the Group has put in place various limits. These limits have been approved by the Board of Directors. Any limit breaches are reported to the respective senior management committees and the Board by the Credit and Risk Management Department ("CRMD"). The limits are reviewed and revised at least on an annual basis or when is deemed required.

The Group has developed a risk measurement and reporting system that generates various types of reports which has enhanced the monitoring process of the Group.

4.5 Credit Risk

4.5.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending and investment activities. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by collateral in the form of mortgage financed or other tangible securities.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical area, and industry sector. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision by the Credit Review and Analysis Unit ("CRAU"). Any changes to the Credit Risk Policy will be approved by the Board.

All credit proposals undergo a comprehensive risk assessment examining the customer's financial condition, trading performance, nature of the business, quality of management, and market position, etc. In addition, the Group implemented Moody's Risk Analyst system in 2016 which has different rating models and generates ratings after taking into consideration quantitative and qualitative factors. This has further strengthened the approval process. The credit approval decision is then made and terms and conditions are set.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Group. Corporate contracts/ facilities are reviewed on an annual basis by CRAU.

4.5.2 Types of credit risk

Financing contracts mainly comprise of due from banks and financial institutions, Murabaha receivables, Musharaka investments, and Ijarah Muntahia Bittamleek.

Due from banks and financial institutions

Due from banks and financial institutions comprise commodity murabaha receivables and wakala receivables.

Murabaha receivables

The Group finances these transactions through buying the commodity which represents the object of the Murabaha contract and then reselling this commodity to the Murabeh (beneficiary) at a profit. The sale price (cost plus profit margin) is repaid in installments by the Murabeh over the agreed period. The transactions are secured at times by the object of the Murabaha contract (in case of real estate finance) and other times by a total collateral package securing the facilities given to the Murabeh.

Musharaka investments

Musharaka is a form of partnership between the Group and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

Ijarah Muntahia Bittamleek

The legal title of the assets under Ijarah Muntahia Bittamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration, or gradual sale, provided that all Ijarah installments are settled.

4.5.3 Past Due and impaired Islamic financing

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

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

Risk and Capital Management Disclosure

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4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.4 External credit assessment institutions

The Group relies on external ratings for rated corporate customers and counterparties. The Group uses Standard & Poor's, Fitch, Moody's and Capital Intelligence to provide ratings for such counterparties. In case of unrated counterparties, the Group will assess the credit risk on the basis of defined parameters. These ratings are used for risk assessment and calculation of risk weighted equivalents. The Group's policy has the mapping of the external ratings with the ratings used by the Group and the corresponding rating is allocated to the exposure accordingly to transfer it in the Group's banking book.

4.5.5 Definition of Geographical distribution

The geographic distribution of the credit exposures is monitored on an ongoing basis by the Group's Risk Management Department and reported to the Board on a quarterly basis. The Group's classification of geographical area is according to its business needs and the distribution of its portfolios.

4.5.6 Concentration risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector, or geographic region. As per CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single unconnected counterparty, or group of closely related counterparties, exceeding 15% of the bank's consolidated total capital. Also, banks are required to obtain the CBB's prior approval for any planned exposure to connected counterparties exceeding 25% of their consolidated total capital at an aggregate level.

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

4.5.7 Credit risk mitigation

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

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

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

The market value of tangible collateral security is properly evaluated by the Group's approved valuers (for properties) or based on publicly available quotations. The value of such security is considered only to the extent of the outstanding exposure of relevant credit facilities.

From time to time, the Credit and Investment Committee reviews and approves the loan-able value of securities. It has also approved a list of acceptable securities.

The majority of the Group's current credit portfolio is secured through mortgage of commercial real estate properties. The Group may dispose off the assets as a last resort after carrying out due legal process.

4.5.7.1 General policy guidelines of collateral management

Acceptable Collateral: The Group has developed guidelines for acceptable collateral. Assets offered by customers must meet the following criteria to qualify as acceptable collateral:

a. Assets must be maintaining their value, at the level prevalent at inception, until maturity date of the facility granted;

b. Such assets should be easily convertible into cash, if required (liquidity);

c. There should be a reasonable market for the assets (marketability); and

d. The Group should be able to enforce its rights over the asset if necessary (enforceability).

Ownership: Prior to valuation or further follow up on the offered collateral, Credit Administration ensures satisfactory evidence of the borrower's ownership of the assets.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)
4.5 Credit Risk (Continued)
4.5.7 Credit risk mitigation (Continued)
4.5.7.1 General policy guidelines of collateral management (Continued)

Valuation: All assets offered as collateral are valued by an appropriate source either in-house (through another department in the Group) or by an external appraiser (real estate related collateral). The Group maintains a list of independent appraisers, approved by management.

a. Valuation of shares and goods: Where competent staff is available within the Group, the valuation is conducted in-house. The Group performs in-house valuation on the following types of securities:

- Pledge of shares of local companies;
- Pledge of international marketable shares and securities; and
- Pledge and hypothecation of goods.

Quoted shares are valued at the quotes available from stock exchanges, periodicals, etc.

b. Valuation of real estate and others: Besides assets mentioned above, the valuation of following securities are also conducted with the help of external valuers:

- Real Estate;
- Equipment and machinery; and
- Precious metals and jewels.

The Credit Administration requests the concerned department to arrange for the valuation from approved valuators.

The following additional guidelines are also followed by the Group:

a. No facility should be disbursed until credit documentation is properly signed and security/guarantees required have been signed and registered, where required. Exceptional cases can be considered by sanctioning authorities; and

b. All documents received as security or support for credit facilities will be lodged in the safe custody through the Credit Administration and should be kept under dual control. The Group must ascertain that collateral providers are authorised and acting within their capacity.

4.5.7.2 Guarantees
In cases where a letter of guarantee from a parent company or a third party is accepted as a credit risk mitigant, the Group ensures that all guarantees are irrevocable, legal opinion has been obtained from a legal counsellor domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee, if the guarantor / prime obligor is domiciled outside Bahrain and all guarantees should be valid until full settlement of the facilities. Also no maturity (negative) mismatch is permissible between the guarantee and exposure.

4.5.7.3 Custody / collateral management
The assets, or title to the asset, will be maintained in the Group's custody or with custodian approved by the Group. The Credit Administration will obtain confirmation of the assets held with each custodian on an annual basis.

The release of collateral without full repayment of all related financial obligations requires authorisation of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimise the Group's risk exposure.

When collateral is released to the customer, the Head of Credit Administration obtains and maintains in his records acknowledgement of receipt from the customer or his/her authorised representative.

4.5.8 Counterparty credit risk
The Group has adopted the Standardised Approach to allocate capital for counterparty credit risk. The Group has put in place an internal counterparty limit structure which is based on internal / external ratings for different types of counterparties. The Group has also set concentration limits as a percentage of its capital based on internal and external grades. In case of a counterparty rating downgrade / deterioration, the Group may require further collateral or advise the counterparty to reduce its exposure on a case by case basis.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

4.5.8 Counterparty credit risk (Continued)

4.5.8.1 Exposure

The measure of exposure reflects the maximum loss that the Group may suffer in case a counterparty fails to fulfill its commitments. Exposure shall always be calculated on the basis of approved limits or actual outstanding exposure (Financing facilities, Investments or others), whichever is higher.

4.5.8.2 Counterparty

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

4.5.8.3 Group exposure

Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. For this purpose, a Group is two or more counterparties related in such a way that financial soundness of one may affect the financial soundness of the other(s) and one of them has a direct or indirect control over the other(s).

4.5.8.4 Connected counterparties

Connected counterparties includes companies or persons connected with the Group, including, in particular; controllers of the Group (and their appointed board representatives); subsidiaries, associates and related parties of the Group; holders of controlled functions in the Group and their close family members; members of the Shari'a Supervisory Board.

4.5.8.5 Large exposure

Large exposure is any exposure whether direct, indirect, or funded by equity of investment accountholders to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's capital base.

Prior written approval from the CBB is required in the following cases:

a. If any unconnected counterparty (single/group) exposure exceeds 15% of Group's Capital Base;

b. If any facility (new/extended) to any connected counterparty exceeds 25% of the consolidated total capital at an aggregate level.

4.5.8.6 Maximum exposure

The Group has set an internal maximum exposure limit in the light of CBB guidelines.

4.5.8.7 Reporting

The Group reports large counterparty exposures (as defined above) to CBB on a periodic basis. The Group reports the exposures on a gross basis without any set-off. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Group has a legally enforceable right to do so.

4.5.8.8 Other Matters

As a Group's strategy, exposure to connected counterparties may be undertaken only when negotiated and agreed on an arm's length basis.

The Group shall not assume any exposure to its external auditors.

4.5.9 Related party transactions

The disclosure relating to related party transactions has been made in the consolidated financial statements as of 31 December 2017. All related party transactions have been made on arm's length basis.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 7. Credit Risk Exposure (PD-1.3.23(a))

The following table summarises the amount of gross funded and unfunded credit exposure as of 31 December 2017 and average gross funded and unfunded exposures over the year ended 31 December 2017:

	Total gross credit exposure BD'000	Average gross credit exposure over the year* BD'000
Funded		
Cash and balances with banks and Central Bank	69,666	67,313
Placements with financial institutions	80,845	103,316
Financing assets	561,822	568,298
Investment in sukuk	227,906	166,299
Investment in equity and funds	30,493	30,730
Ijarah Muntahia Bittamleek and rental receivables	178,880	173,075
Investment in associates	23,739	24,204
Investment in real estate	29,831	28,686
Property and equipment	14,270	15,187
Other assets	11,195	12,305
Total	1,228,647	1,189,413
Unfunded		
Commitments and contingent liabilities	129,393	111,238
Total	1,358,040	1,300,651

*Average balances are computed based on quarter end balances.

Table – 8. Credit Risk – Geographic Breakdown (PD-1.3.23(b))

The following table summarises the geographic distribution of exposures as of 31 December 2017, broken down into significant areas by major types of credit exposure:

	North America BD'000	Europe BD'000	Middle East BD'000	Total BD'000
Cash and balances with banks and Central Bank	9,710	4,003	55,953	69,666
Placements with Financial institutions	-	-	80,845	80,845
Financing assets	-	9,556	552,266	561,822
Investment in sukuk	763	10,558	216,585	227,906
Investment in equity and funds	-	-	30,493	30,493
Ijarah Muntahia Bittamleek and rental receivables	-	-	178,880	178,880
Investment in associates	-	-	23,739	23,739
Investment in real estate	-	-	29,831	29,831
Property and equipment	-	-	14,270	14,270
Other assets	-	-	11,195	11,195
Total	10,473	24,117	1,194,057	1,228,647

Geographical distribution of exposure into significant areas by major type of credit exposure is based on counterparty's country of incorporation.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 9. Credit Risk – Industry Sector Breakdown (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposures as of 31 December 2017 by industry, broken down into major types of credit exposure:

	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000	Real Estate BD'000	Personal & Consumer Finance BD'000	Governmental Organisation BD'000	Others BD'000	Total BD'000
Funded							
Cash and balances with banks and Central Bank	-	30,807	-	-	38,859	-	69,666
Placements with Financial institutions	-	80,845	-	-	-	-	80,845
Financing assets	104,855	33,300	100,098	275,528	2,282	45,759	561,822
Investment in sukuk	-	12,452	8,094	-	203,621	3,739	227,906
Investment in equity and funds	-	6,712	23,739	-	-	42	30,493
Ijarah Muntahia Bittamleek and rental receivables	163	-	38,072	114,193	7,015	19,437	178,880
Investment in associates	-	5,099	6,080	-	-	12,560	23,739
Investment in real estate	-	-	29,831	-	-	-	29,831
Property and equipment	-	-	-	-	-	14,270	14,270
Other assets	-	1,972	5,689	1,941	-	1,593	11,195
Total	105,018	171,187	211,603	391,662	251,777	97,400	1,228,647
Unfunded							
Commitments and contingent liabilities	20,507	3,205	45,068	33,085	21,081	6,447	129,393
Total	125,525	174,392	256,671	424,747	272,858	103,847	1,358,040

Table – 10. Credit Risk – Financing Facilities to Highly Leveraged or Other High Risk Counterparties (PD-1.3.23(e))

The following balances represent the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2017:

	Gross BD'000	Provision BD'000	Net BD'000
Counterparties			
Counterparty # 1	8,338	2,106	6,232
Counterparty # 2	3,696	2,628	1,068
	12,034	4,734	7,300

Table – 11. Credit Risk – Concentration of Risk (PD-1.3.23(f))

The Bank has no exposures that are in excess of the individual obligor limit of 15% of the Bank's capital as of 31 December 2017.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (PD-1.3.23(g) PD-1.3.38)

The following table summarises the maturity profile of the total assets based on contractual maturities as at 31 December 2017. All the assets with no fixed contractual maturities are disclosed under no fixed maturity:

	Up to 1 month BD'000	1-3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	Total BD'000
Assets											
Cash and balances with banks and central Bank	34,461	-	-	-	-	-	-	-	-	35,205	69,666
Placements with financial institutions	80,845	-	-	-	-	-	-	-	-	-	80,845
Financing assets	23,595	28,150	29,159	63,784	65,411	113,475	177,645	41,096	19,507	-	561,822
Investment in sukuk	11,295	40,179	27,603	10,167	34,766	1,266	102,630	-	-	-	227,906
Investment in equity and funds	-	-	-	-	-	-	-	-	-	30,493	30,493
Ijarah Muntahia Bittamleek and rental receivables	10,193	8,309	162	56	4,222	3,523	34,327	62,527	55,561	-	178,880
Investment in associates	-	-	-	-	-	-	-	-	-	23,739	23,739
Investment real estate	-	-	-	-	-	-	-	-	-	29,831	29,831
Property and equipment	-	-	-	-	-	-	-	-	-	14,270	14,270
Other assets	5	310	397	357	1,527	880	7,719	-	-	-	11,195
Total Assets	160,394	76,948	57,321	74,364	105,926	119,144	322,321	103,623	75,068	133,538	1,228,647

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 13. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances by industry sector (PD-1.3.23(h) PD-1.3.24(b) PD-1.3.24(d))

The following table summarises the impaired facilities, past due facilities, and allowances disclosed by major industry sector as of 31 December 2017:

		Aging of non-performing or past due or impaired Islamic financing contacts				Specific allowances				Collective allowances*		
	Non-performing or past due or impaired Islamic financing contracts BD'000	Up to 3 months** BD'000	3 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	Balance at the beginning of the year BD'000	Charge during the year BD'000	Charge-offs and recoveries during the year BD'000	Balance at the end of the year BD'000	Balance at the beginning of the year BD'000	Net charge for the year BD'000	Balance at the end of the year BD'000
Trading and Manufacturing	36,907	34,352	2,304	-	251	1,041	900	1,762	179	1,202	142	1,344
Real Estate	55,205	30,457	1,757	6,633	16,358	25,827	(825)	10,581	14,421	1,339	(821)	518
Banks and Financial Institutions	1,724	1,724	-	-	-	-	-	-	-	195	(109)	86
Personal / Consumer Finance	32,613	25,086	3,114	1,831	2,582	15	-	-	15	9,057	(1,448)	7,609
Others	22,449	17,554	145	4,506	244	654	2,989	863	2,780	641	749	1,390
Total	**148,898**	**109,173**	**7,320**	**12,970**	**19,435**	**27,537**	**3,064**	**13,206**	**17,395**	**12,434**	**(1,487)**	**10,947**

* Collective allowance represents impairment provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted. The net charge for the year is net of write-offs of BD 960 thousand.

** This includes amounts not due and amounts past due less than 90 days relating to non-performing or past due or impaired Islamic financing contracts.

The Group's collective model for retail portfolio uses the net flow rate method, where probability of default is calculated on an account level segregated by buckets of number of days past due. Loss given default is at annual average recovery rates, which is reviewed annually.

The Group's collective model for corporate portfolio uses the expected loss method. Data is grouped in economic sectors and probability of default and loss given default is calculated for these sectors.

In assessing specific impairments, the Group uses different criteria including Discounted Cash Flow method to ascertain the impairment, if any.

Table – 14. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances (by geographic area) (PD-1.3.23(i) PD-1.3.24(c))

The following table summarises the past due facilities and allowances by geographical area as of 31 December 2017:

	Non-performing or past due or impaired Islamic financing contracts BD'000	Specific Impairment provision BD'000	Collective Impairment provision BD'000
Middle East	148,898	17,395	10,947
Total	**148,898**	**17,395**	**10,947**

Table – 15. Credit Risk – Restructured Financing Facilities (PD-1.3.23(j))

The following table summarises the aggregate amount of restructured financing facilities during the year as of 31 December 2017:

	Outstanding BD'000	Provision BD'000	Net of Provision BD'000
Total Islamic Financing	769,044	28,342	740,702
Restructured financing facilities*	11,625	-	11,625
Percentage	**1.51%**	**0.00%**	**1.57%**

*Excludes facilities restructured during the year amounting to BD 12,963 thousand which are past due as of 31 December 2017.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.5 Credit Risk (Continued)

Table – 16. Credit Risk Mitigation (PD-1.3.25 (b) and (c))

The following table summarises the exposure as of 31 December 2017 by type of Islamic financing contract covered by eligible collateral:

	Total exposure covered by	
	Tamkeen Guarantee BD'000	**Others BD'000**
Financing assets	**60,134**	**56,128**
Ijarah Muntahia Bittamleek and rental receivables	**73**	**20,474**
Total	**60,207**	**76,602**

Table – 17. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of 31 December 2017:

	Financing assets BD'000	Ijarah Muntahia Bittamleek and rental receivables BD'000	Total BD'000
Exposures:			
Secured*	**116,262**	**20,547**	**136,809**
Unsecured*	**445,560**	**158,333**	**603,893**
Total	**561,822**	**178,880**	**740,702**
Collateral held:			
-Cash	**12,048**	**59**	**12,107**
-Guarantees	**7,906**	**4**	**7,910**
-Shares	**5,669**	**-**	**5,669**
-Real Estate**	**6,365**	**17,940**	**24,305**
Total	**31,988**	**18,003**	**49,991**
Collateral as a percentage of secured exposure	**27.51%**	**87.62%**	**36.54%**

*The financing assets and Ijraha Muntahia Bittamleek exposures are net of provision.

**A haircut of 30% is applied on the Real Estate collateral.

4.6 Market Risk

4.6.1 Introduction

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

4.6.2 Sources of market risk

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets, or commodity markets. A single transaction or financial product may be subject to any number of these risks.

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

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

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.6 Market Risk (Continued)

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. The Group has established a limit structure to monitor and control the market risk in its equity type instruments portfolio. These limits include maximum stop-loss limits, position limits, and maturity limits. As at 31 December 2017, the group did not have any trading portfolio.

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

4.6.3 Market risk strategy

The Group's Board is responsible for approving and reviewing (at least annually) the risk strategy and significant amendments to the risk policies. The Group's senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring, and controlling risks.

In line with the Group's risk management objectives and risk tolerance levels, the specific strategies for market risk management include:

a. The Group will manage its market risk exposure by evaluating each new product / activity with respect to the market risk introduced by it;

b. The Group will proactively measure and continually monitor the market risk in its portfolio;

c. The Group will at all time hold sufficient capital in line with the CBB Pillar 1 regulatory capital requirements;

d. The Group will establish a limit structure to monitor and control the market risk in its portfolio. These limits will include position limits, maximum/stop loss limits, factor sensitivity limits, and maturity limits;

e. The Group will carry out stress testing periodically using the worst case scenarios to assess the effects of changes in the market value due to changing market conditions;

f. The Group will periodically carry out back testing of market risk assessment models in order to evaluate their accuracy and the inherent model risk;

g. The Group will match the amount of floating rate assets with floating rate liabilities; and

h. The Group will clearly identify the foreign currencies in which it wishes to deal in and actively manage its market risk in all foreign currencies in which it has significant exposure.

4.6.4 Market risk measurement methodology

Market risk measurement techniques include the use of a number of techniques for market risk measurement. The risk measurement techniques mentioned in this section are used for measuring market risk in both trading book as well as banking book.

The various techniques which are used by the Group for the measurement, monitoring and control of market risk are as follows:

a. Overnight open positions;

b. Stop loss limits;

c. Factor sensitivity limits;

d. Stress testing; and

e. Profit rate risk gap analysis.

4.6.5 Market risk monitoring and limits structure

The Asset and Liability Committee (ALCO) proposes through the Executive Committee and Board the tolerance for market risk. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in market prices and rates.

4.6.6 Limits monitoring

The Treasury Department and Risk Unit monitor the risk limits for each transaction, ensure that the limits are well within set parameters, and report periodically to top management.

4.6.7 Breach of limits

In case a limit is breached, an approval is required to continue with the transaction. An immediate report is provided to the ALCO after every significant limit breach. This breach is also reported to and approved by the Executive Committee (EXCOM). The limits are revised at least annually or when deemed required.

Risk and Capital Management Disclosure

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4. Risk Management (Continued)

4.6 Market Risk (Continued)

4.6.8 Portfolio review process

On a monthly basis, Risk Unit reviews the Group's assets and liabilities portfolio to evaluate the overall corporate exposure to market risk. As part of the review, Risk Unit also monitors the Group's overall market exposure against the risk tolerance limits set by the Board. Risk Unit also reviews the adherence to approved limits to control the market risk. Changes, if any, in market risk limits are communicated to business units after review by the CRO/CEO and approval by the ALCO or EXCOM, as per the delegated authorities approved by the Board. Balance sheet exposure is being reviewed on a quarterly basis by the Board level Audit committee.

4.6.9 Reporting

Risk Unit generates at regular periodic intervals market risk management reports. These reports aim to provide the Group's senior management with an up-to-date view of its market risk exposure.

4.6.10 Stress testing

Stress tests produce information summarising the Group's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme price movements of this type. The Group's Risk Unit employs different stress categories: profit rates, foreign exchange rates, and equity prices. For each stress category, the worst possible stress shocks that might realistically occur in the market are defined.

4.6.11 Foreign subsidiary

The Group does not have any foreign subsidiary.

Table – 18. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the maximum and minimum capital requirement for foreign exchange risk for the year:

	Foreign exchange risk BD'000
Maximum value capital requirement	**1,338**
Minimum value capital requirement	**856**

4.7 Operational Risk

4.7.1 Introduction

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

4.7.2 Sources of operational risk

The different sources of operational risks faced by the Group can be classified broadly into the following categories:

a. People risk which arises due to staffing inadequacy, unattractive remuneration structure, lack in staff development policies, lack in procedures for appointment, unhealthy professional working relationship, and unethical environment;

b. Processes risk which arises due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate/inadequate monitoring and reporting; and

c. Systems (Technology) risk which arises due to integrity of information - lacking in timeliness of information, omission and duplication of data, hardware failures due to power surge, obsolescence or low quality.

d. Legal risk which arises due to contractual obligations.

Risk and Capital Management Disclosure

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4. Risk Management (Continued)

4.7 Operational Risk (Continued)

4.7.3 Operational risk management strategy

As a strategy, the Group will identify the sources of operational risks in coordination with each business unit. The Group carried out Risk Control Self-Assessments ("RCSA"), and plans to do a continuous and on-going exercise to identify the operational risks it is exposed to.

The Group on a continuous basis will:

a. assess the effectiveness of controls associated with identified risks;

b. regularly monitor operational risk profiles and material exposures to losses / loss events; and

c. identify stress events and scenarios to which it is vulnerable and assess their potential impact, and the probability of aggregated losses from a single event leading to other risks.

4.7.4 Operational risk monitoring and reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management for the quick detection and correction of deficiencies in the policies, processes, and procedures for managing operational risk through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

The Bank has a legal department dedicated to monitor any legal risk arising out of contracts / agreements entered into by the Bank on a day to day basis. The department also liaises with external lawyers for legal cases filed by the bank against delinquent accounts for recovery or any legal cases filed against the Bank.

4.7.5 Operational risk mitigation and control

The business units, in consultation with Risk Units will determine all material operational risks and decide the appropriate procedures to be used to control and/or mitigate the risks.

For those risks that cannot be controlled, the business units in conjunction with Risk Unit will decide whether to accept the risks, reduce the level of business activity involved, transfer the risk outside the Group, or withdraw from the associated activity completely. Risk Unit facilitates the business units in co-developing the mitigation plans. Bank deals with the pending legal cases through internal and external lawyers depending upon the severity of the cases.

Table – 19. Operational Risk Exposure (PD-1.3.30 (a), (b) & (c))

The following table summarises the amount of exposure subject to basic indicator approach of operational risk and related capital requirements:

	Gross income		
	2016 BD'000	**2015 BD'000**	**2014 BD'000**
Total Gross Income	**53,993**	**51,453**	**32,290**
Indicators of operational risk			
Average Gross income (BD'000)			**45,912**
Multiplier			**12.5**
			573,900
Eligible Portion for the purpose of the calculation			**15%**
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (BD'000)			**86,085**

4.8 Equity Position in the Banking Book

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

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements as of 31 December 2017. Equity type instruments carried at fair value through equity and investment properties are kept for capital gain purposes, all other investments including investments in associates are kept for strategic long term holdings.

Risk and Capital Management Disclosure

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4. Risk Management (Continued)

4.8 Equity Position in the Banking Book (Continued)

Table – 20. Equity Position Risk in Banking Book (PD-1.3.31 (b), (c) & (g))

The following table summarises the amount of total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2017:

	Total gross exposure BD'000	Average gross exposure* BD'000	Publicly traded BD'000	Privately held BD'000	Risk weighted assets BD'000	Capital Requirements BD'000
Sukuk**	**239,387**	**166,299**	**-**	**239,387**	**14,760**	**1,845**
Equity investments	**17,592**	**17,592**	**-**	**17,592**	**48,674**	**6,084**
Funds	**14,168**	**14,168**	**-**	**14,168**	**27,877**	**3,485**
Total	**271,147**	**198,059**	**-**	**271,147**	**91,311**	**11,414**

*Average balances are computed based on quarter end balances.

** Includes sukuk that are traded over the counter, refer note 6 of the consolidated financial statements for the break down of sukuk.

Table – 21. Equity Gains or Losses in Banking Book (PD-1.3.31 (d), (e) & (f))

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended 31 December 2017:

	BD'000
Cumulative realised gain arising from sales or liquidations in the reporting year	**-**
Total unrealised losses recognised in the consolidated statement of financial position but not through consolidated statement of income	**-**
Unrealised gains included in CET 1 Capital	**745**
Unrealised gains included in Tier 2 Capital	**6,145**

4.9 Equity of Investment Accountholders ("IAH")

The Group may require to decrease or increase loses or profit on certain IAH accounts for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by equity of Investment Accountholders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis.

The Group is authorised by the IAH to invest the account holder's funds on the basis of Mudaraba contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how, and for what purpose the funds should be invested. Under this arrangement the Group can commingle the equity of investment accountholders investment funds with its own funds (owner's equity) or with other funds the Group has the right to use (e.g. current accounts or any other funds which the Group does not receive on the basis of Mudaraba contract). The IAH and the Group generally participate in the returns on the invested funds. In such type of contract, the Group is not liable for any losses incurred on the joint pool other than the loss resulting from gross negligence or wilful misconduct on the part of the Group or due to the Group's violation of the terms and conditions as agreed between the Group and the IAH. During the year the Bank waived 0.7% of profit from mudarib fees in order to maintain a competitive profit distribution to IAH.

The amount received from the customer on account of equity of investment accountholders is not invested completely in the portfolio of selected investments as the Group is required to maintain a cash reserve with CBB. In addition, the Group requires to set aside certain amount to meet operational requirements. The income allocated to the equity of investment accountholders deposits being received is in accordance with the utilisation of such funds. The utilisation rate is determined by the ALCO with the approval of Shari'a Supervisory Board.

Proposal for new products is initiated by the business lines within the Group and ALCO review such proposal to ensure that the new product is in line with the Group's business and risk strategy. All new products require the approval of the Shari'a Supervisory Board of the Bank. The business lines of the Group have expertise in creating high end value added products offering a wide range of products, expected return, tenors, and risk profile. Information on new products or any change in the existing products will be placed on the Group's website or published in the media.

The Group has designed special Quality of Service and Complaints Management Unit which reports to GM Retail. The complaints are investigated by personnel not directly related to the subject matter of the complaints.

The Group offers equity of investment accountholders in different currencies for maturity periods ranging from 1 month, 3 months, 6 months, 9 months, 12 months, and 36 months. The customer signs a written contract covering all terms and conditions of the investment, including tenor, basis of profit allocation, and early withdrawal.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders (“IAH”) (Continued)

Because equity of investment accountholders is a significant funding source for the Group, the Group regularly monitors rate of return offered by competitors to evaluate the expectation of its IAH. The Group’s policy provide whole or partial waiver of the Mudarib share of income from investment in order to provide a reasonable return to its investors.

The Group comingles its own funds and equity of investment accountholders funds which are invested together. The equity of investment accountholders funds are invested into assets and income from these assets are allocated to such account.

The Group has already developed written policies and procedures applicable to its portfolio of Equity of investment accountholders. Equity of investment accountholders funds are invested and managed in accordance with Shari’a requirements.

Profits of an investment jointly financed by the Group and the equity of investment accountholders shall be allocated between them according to the contribution of each of the Group and the IAH in the jointly financed investment. Operating expenses incurred by the Group are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the Joint pool, as at that date, in the respective ratio of the Group’s and IAH’s respective contribution to the comingled pool. The Bank temporarily allocates certain non-performing assets (past due greater than 90 days) from IAH to the equity shareholders and charges the specific impairment provisions to the owners’ equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners’ equity. The Bank takes remedial action on these non-performing assets and once these assets become performing, the assets and related income are allocated between the IAH and owners’ equity. Impairment provisions (if any) relating to non-performing assets allocated to IAH are allocated to the equity shareholders. Any recoveries from such accounts are also allocated to the equity shareholders.

In case of early withdrawal of IAH fund before completion of the term, the effective utilisation method will be applied.

In case of term deposits, the IAH account holders can withdraw funds on a premature basis by paying a nominal amount of fees / penalty; such penalties are offered for charity.

Additional disclosures such as the below are disclosed in the Bank's website;

a. Characteristics of investors for whom investment account may be appropriate

b. Purchase redemption and distribution procedures

c. Product information and the manner in which the products are made available to investors

Table – 22. Equity of Investment Accountholders by Type (PD-1.3.33 (a))

The following table summarises the breakdown of equity of investment accountholders accounts as of 31 December 2017:

	BD’000
Banks and financial institutions	55,845
Individuals and non-financial institutions	737,911
Total	**793,756**

Table – 23. Equity of Investment Accountholders Ratios (PD-1.3.33 (d) & (f))

The following table summarises the return on average assets and mudarib share as a percentage of the total investment profit for the year ended 31 December 2017:

Profit Paid on Average IAH Assets*	1.54%
Mudarib Fee to Total income from jointly financed assets	52.09%

*Average assets funded by IAH have been calculated using month end balances.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 24. Equity of Investment Accountholders Ratios (PD-1.3.33 (e) & (g))

The following table summarises the profit distributed to IAH and financing ratios to the total of IAH by type of investment for the year ended 31 December 2017:

Account Type	Average declared rate of return	Proportion of total profit distributed by type of IAH	Proportion of IAH investments to total IAH
Saving accounts (including Vevo)	**0.13%**	**1.40%**	**15.88%**
Defined accounts - 1 month	**0.80%**	**0.35%**	**0.59%**
Defined accounts - 3 months	**0.80%**	**0.13%**	**0.22%**
Defined accounts - 6 months	**0.85%**	**0.21%**	**0.34%**
Defined accounts - 9 months	**0.95%**	**0.00%**	**0.00%**
Defined accounts - 1 year	**1.00%**	**1.26%**	**1.75%**
Investment certificates	**3.50%**	**0.02%**	**0.00%**
IQRA	**1.50%**	**0.61%**	**0.58%**
Tejoori	**0.13%**	**2.03%**	**22.34%**
Customer special deposits	**2.03%**	**93.99%**	**58.31%**
		100%	**100%**

The calculation and distribution of profits was based on quarterly average balances.

Table – 25. Equity of Investment Accountholders to Total Financing (PD-1.3.33 (h) & (i))

The following table summarises the percentage of counterparty type to total financing for each type of Shari'a-compliant contract to total financing as of 31 December 2017:

	Percentage of Counterparty Type to Total Financing					
	Self-Financed		IAH		Total	
	BD'000	%	BD'000	%	BD'000	%
Gross financing assets*						
Murabaha	**111,983**	**24.17%**	**351,420**	**75.83%**	**463,403**	**100.00%**
Corporate	64,789	24.32%	201,611	75.68%	266,400	100.00%
Retail	47,194	23.96%	149,809	76.04%	197,003	100.00%
Musharakah	**25,720**	**23.93%**	**81,748**	**76.07%**	**107,468**	**100.00%**
Corporate	4,968	30.07%	11,553	69.93%	16,521	100.00%
Retail	20,752	22.82%	70,195	77.18%	90,947	100.00%
Total	**137,703**	**24.12%**	**433,168**	**75.88%**	**570,871**	**100.00%**
Gross Ijarah Muntahia Bittamleek and rental receivables**						
Corporate	19,700	41.57%	27,691	58.43%	47,391	100.00%
Retail	29,533	22.14%	103,854	77.86%	133,387	100.00%
Total	**49,233**	**27.23%**	**131,545**	**72.77%**	**180,778**	**100.00%**
Collective provision	(7,169)	65.49%	(3,778)	34.51%	(10,947)	100.00%
Total	**179,767**	**24.27%**	**560,935**	**75.73%**	**740,702**	**100.00%**

*Net of specific provisions of BD 6,119 thousand.

**Net of specific provisions of BD 11,277 thousand.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 26. Equity of Investment Accountholders Share of Profit by account type (PD-1.3.33 (l) (m) & (n))

Account Type	Gross return on equity of IAH BD'000	Transfer to equalization Reserve BD'000	Average Mudaraba %	Mudarib fees BD'000	Transfer to IRR BD'000	Profit paid to IAH BD'000
	A	B		C	D	(A-B-C-D)
Tejoori	7,640	-	96.86%	7,361	24	255
Saving	4,939	-	96.93%	4,762	15	162
Vevo	491	-	97.13%	474	2	15
IQRA	220	-	67.83%	143	4	73
Defined deposits	23,140	-	58.11%	11,906	375	10,859
	36,430	-		24,646	420	11,364

Table – 27. Equity of Investment Accountholders Share of Profit (PD-1.3.33 (l) (m) & (n))

The following table summarises the share of profits earned by and paid out to profit sharing investment accounts and the Group as a Mudarib for the year ended 31 December 2017:

Share of profit allocated to IAH before transfer to/from reserves - BD '000	36,430
Percentage share of profit earned by IAH before transfer to/from reserves	4.59%
Share of profit paid to IAH after transfer to/from reserves - BD '000	11,364
Percentage share of profit paid to IAH after transfer to/from reserves	1.43%
Share of profit paid to Bank as a mudarib - BD '000	24,646

Table – 28. Equity of Investment Accountholders Percentage Return to Profit Rate of Return (PD-1.3.33 (q))

The following table summarises the average distributed rate of return or profit rate on profit sharing investment accounts for the year ended 31 December 2017:

	3 months	6 months	12 months	36 months
Percentage of average distributed rate of return to profit rate of return to IAH	1.95%	2.03%	1.99%	3.95%

Table – 29. Equity of Investment Accountholders Type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2017:

	As at 30-Jun-17 BD'000	Movement during the period BD'000	As at 31-Dec-17 BD'000
Cash and balances with banks and Central Bank	31,846	(1,512)	30,334
Gross financing assets*	418,005	15,163	433,168
Gross Ijarah Muntahia Bittamleek and rental receivables*	117,528	14,017	131,545
Collective impairment	(3,994)	216	(3,778)
Investment securities	109,328	80,150	189,478
Investment in real estate	5,427	(98)	5,329
Other assets	8,907	(1,227)	7,680
Total	687,047	106,709	793,756

* Net of specific provision.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 30. Equity of Investment Accountholders Profit Earned and Paid (PD-1.3.33 (w))

The following table summarises the amount and rate of return of profits earned by the Group and paid out to equity of investment accountholders over the past five years:

	Profit Earned (jointly financed)		Profit Paid to (IAH)	
	BD'000	%	BD'000	%
2017	**47,315**	**4.51%**	**11,364**	**1.43%**
2016	38,977	4.51%	8,356	0.97%
2015	37,188	4.78%	5,733	0.74%
2014	31,237	4.63%	7,539	1.12%
2013	37,425	5.54%	11,124	1.65%

Table – 31. Treatment of assets financed by IAH (PD-1.3.33 (v))

	Assets BD'000	RWA BD'000	RWA for Capital Adequacy Purposes BD'000	Capital Requirements BD'000
Cash and balances with banks and Central Bank	**30,334**	**-**	**-**	**-**
Financing assets*	**433,168**	**110,189**	**33,057**	**4,132**
Investment in sukuk	**178,785**	**7,492**	**2,248**	**281**
Investment in equity and funds	**10,693**	**12,370**	**3,711**	**464**
Ijarah Muntahia Bittamleek	**131,545**	**23,878**	**7,163**	**895**
Investment in real estate	**5,329**	**3,498**	**1,049**	**131**
Other assets	**7,680**	**4,011**	**1,203**	**150**
	797,534	**161,438**	**48,431**	**6,053**

*The exposure is gross of collective impairment of BD 3,778 thousand.

4.10 Liquidity Risk

4.10.1 Introduction

Liquidity risk is defined as "the risk that the Group will be unable to meet its obligations as they come due because of an inability to obtain adequate funding or to liquidate assets".

4.10.2 Sources of liquidity risk

The sources of liquidity risk can broadly be categorised in the following:

a. Funding risk is the risk of not being able to fund net outflows due to unanticipated withdrawal of capital or deposits;

b. Call risk is the risk of crystallisation of a contingent liability; and

c. Event risk is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Group.

4.10.3 Bank's funding strategy

The Board reviews the funding strategy on an annual basis and amends the existing strategy, as deemed necessary. For this purpose, all business units advise the Treasurer of their projected liquidity requirements and contributions at the start of each year as part of annual budgeting process.

The funding strategy highlights any anticipated liquidity shortfalls, the funding requirements to finance these shortfalls and their impact on the statement of financial position. The Group's Risk Charter and Liquidity Policy address liquidity contingency plan to deal with stressed scenarios and outline an action plan that can be taken in the event of liquidity stress situation.

Risk and Capital Management Disclosure

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4. Risk Management (Continued)

4.10 Liquidity Risk (Continued)

4.10.4 Liquidity risk strategy

The Group monitors the liquidity position by comparing maturing assets and liabilities over different time buckets of up to 1 month, 1-3 months, 3-6 months, 6 months to 1 year, 1-3 years, and over 3 years. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Group. As a strategy the Group maintains a large customer base and good customer relationships.

The Treasury Department, in conjunction with Risk Unit periodically reviews/updates (at least annually) the liquidity risk strategy which is evaluated by ALCO before presenting to the EXCOM and the Board for approval.

4.10.5 Liquidity risk measurement tools

The Group is monitoring the liquidity risk through ALCO

4.10.6 Liquidity risk monitoring

The Group has set the tolerance for liquidity risk which are communicated to the Risk Unit and Treasury Department. Based on these tolerances, Risk Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in liquidity situations due to cash flows in current accounts, and IAHs.

4.10.7 Liquidity limits structure

The Group uses a combination of different limits to ensure that liquidity is managed and controlled in an optimal manner. The Group has set the following limits for monitoring liquidity risks:

a. Liquidity Gap limits; and

b. Liquidity Ratio limits

4.10.8 Liquidity risk stress testing

To evaluate whether the Group is sufficiently liquid, behavior of the Group's cash flows under different conditions are observed.

4.10.9 Contingency funding plan

The Group does contingency funding exercises which details procedures to be followed by the Group, in the event of a liquidity crisis or a situation where the Group faces stressed liquidity conditions. The contingency funding plan will be an extension of day to day liquidity management and involves maintenance of an adequate amount of liquid assets and management of access to funding resources.
The ALCO members discuss and monitor the situation over regular time-intervals to ensure sufficient liquidity in the Group.

Table – 32. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios for the past five years:

	2017	2016	2015	2014	2013
Due from banks and financial institutions / Total Assets	**6.58%**	6.12%	7.49%	7.83%	20.28%
Islamic Financing / Customer Deposits(1)	**80.04%**	85.13%	80.53%	74.48%	62.49%
Customer Deposits(1) / Total Assets	**75.32%**	77.43%	77.50%	64.74%	67.83%
Short term assets(2) / Short term liabilities(3)	**20.35%**	18.53%	22.38%	33.86%	78.41%
Liquid Assets(4) / Total Assets	**9.38%**	8.95%	10.26%	10.24%	22.27%
Growth in Customer Deposits	**17.62%**	6.64%	7.48%	(8.24%)	7.66%

(1) Customer deposits includes customer current accounts and IAH.

(2) Short term assets includes cash and balances with banks and placements with financial institutions (maturing in a year).

(3) Short term liabilities includes customer current accounts, other liabilities, placements from financial institutions (maturing within one year) and IAH (maturing within one year).

(4) Liquid assets includes cash and balances with banks and Central Bank (excluding CBB reserve) and placements with financial institutions (maturing in a year).

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.11 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance.

Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of the Group. The profit rate risk in the Group may arise due to the following transactions:

a. Murabaha transactions;
b. Wakala transactions;
c. Ijarah Muntahia Bittamleek;
d. Sukuk; and
e. Musharaka investments.

The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities and equity of investment accountholders as the repricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

4.11.1 Sources of profit rate risk

The different profit rate risks faced by the Group can be classified broadly into the following categories:

a. Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose the Group's income and underlying economic value to unanticipated fluctuations;
b. Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on the Group's income and/or underlying economic value;
c. Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
d. Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitors rates.

4.11.2 Profit rate risk strategy

The Group is not exposed to interest rate risk on its financial assets as no interest is charged. However, the fair value of financial assets may be affected by current market forces including interest rates. The Group recognises income on certain of its financial assets on a time-apportioned basis. As a strategy the Group:

a. has identified the profit rate sensitive products and activities it wishes to engage in;
b. has established a structure to monitor and control the profit rate risk of the Group;
c. measures profit rate risk through establishing maturity/re-pricing schedule that distributes profit rate sensitive assets, liabilities and off-balance sheet items in pre-defined time bands according to their maturity; and
d. makes efforts to match the amount of floating rate assets with floating rate liabilities in the banking book.

4.11.3 Profit rate risk measurement tools

The Group uses the following tools for profit rate risk measurement in the banking book:

a. Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of the banking book in absolute terms; and
b. Basis Point Value ("BPV") analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from a 1 basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

Risk and Capital Management Disclosure

31 December 2017

4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

4.11.4 Profit rate risk monitoring and reporting

The Group has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to EXCOM and the Board of Directors. The Risk Unit monitors these limits regularly. CRO reviews the results of gap limits and exceptions, if any, and recommends corrective action to be taken which is approved by ALCO or EXCOM, according to authority parameters approved by the Board.

Table – 33. Profit Rate Risk in Banking Book (PD-1.3.40 (b))

The following table summarises the profit rate gap position as of 31 December 2017:

	Up to 3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	Over 3 years BD'000	Total BD'000
Assets						
Placements with financial institutions	80,845	-	-	-	-	80,845
Financing assets	51,745	29,159	63,784	65,411	351,723	561,822
Ijarah Muntahia Bittamleek and rental receivables	18,502	162	56	4,222	155,938	178,880
Investment in sukuk	51,474	27,603	10,167	34,766	103,896	227,906
Total profit rate sensitive assets	202,566	56,924	74,007	104,399	611,557	1,049,453
Liabilities and Equity of Investment Accountholders						
Placements from financial institutions	67,872	-	-	-	-	67,872
Borrowings from financial institutions	63,488	-	38,088	-	-	101,576
Customers' current accounts	26,333	-	-	-	105,333	131,666
Equity of investment accountholders	309,436	146,113	72,960	9,334	255,913	793,756
Total profit rate sensitive laibilities and IAH	467,129	146,113	111,048	9,334	361,246	1,094,870
Profit rate gap	(264,563)	(89,189)	(37,041)	95,065	250,311	(45,417)

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200 bp in profit rates as of 31 December 2017:

	Effect on value of assets BD'000	Effect on value of liabilities BD'000	Effect on value of economic capital BD'000
Upward rate shocks	(5,323)	8,563	3,240
Downward rate shocks	5,323	(8,563)	(3,240)

Table – 34. Quantitative Indicators of Financial Performance and Position (PD-1.3.9 (b) PD-1.3.33 (d))

The following table summarises the basic quantitative indicators of financial performance for the past 5 years:

	2017	2016	2015	2014	2013
Return on average equity	8.50%	7.45%	11.88%	11.80%	8.26%
Return on average assets	0.90%	0.83%	1.21%	1.00%	0.70%
Cost to income ratio	61.92%	56.44%	51.68%	55.10%	53.44%

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4. Risk Management (Continued)

4.11 Profit Rate Risk (Continued)

Table – 35. The following table summarises the historical data over the past five years in relation to Profit Sharing Investment Accounts (PD-1.3.41):

The details of income distribution to Profit Sharing Investment Accounts for the last five years:

	2017	**2016**	**2015**	**2014**	**2013**
Allocated income to IAH	**36,010**	29,301	29,961	23,379	32,849
Distributed profit	**11,364**	7,131	5,187	7,287	10,829
Mudarib fees	**24,646**	22,170	24,774	16,092	22,021

	2017	**2016**	**2015**	**2014**	**2013**
Balances (BD '000s):					
Profit Equalization Reserve (PER)	**1,245**	1,245	995	395	295
Investment Risk Reserve (IRR)	**1,177**	757	227	103	63
PER Movement	**-**	250	600	100	295
IRR Movement	**420**	530	124	40	-
Ratios (%):					
Income allocated to IAH / Mudaraba assets	**3.43%**	3.39%	3.85%	3.46%	4.87%
Mudaraba fees / Mudaraba assets	**2.35%**	2.57%	3.18%	2.38%	3.26%
Distributed profit / Mudaraba assets	**1.08%**	0.83%	0.67%	1.08%	1.61%
Rate of Return on IAH	**1.57%**	1.15%	0.86%	1.11%	1.62%
Profit Equalization Reserve / IAH	**0.16%**	0.19%	0.17%	0.07%	0.05%
Investment Risk Reserve / IAH	**0.15%**	0.12%	0.04%	0.02%	0.01%

CBB Penalties (PD 1.3.44)

The CBB penalty imposed upon the Bank amounted to BD 50 during the year regarding Bahrain Credit Reference Bureau records.

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5. Glossary of Terms

ALCO	Assets and Liabilities Committee
BCP	Business Continuity Plan
BisB	Bahrain Islamic Bank B.S.C.
BPV	Basis Point Value
CA Module	Capital Adequacy Module
CAR	Capital Adequacy Ratio
CBB	Central Bank of Bahrain
CRMD	Credit and Risk Management Department
CR & AD	Credit Review and Analysis Department
C&IC	Credit and Investment Committee
DCR	Displaced Commercial Risk
Excom	Executive Committee
CBB	Central Bank of Bahrain
FX	Foreign Exchange
GM-C&RM	General Manager-Credit and Risk Management
Group	Bahraini Islamic Bank B.S.C. and its subsidiaries
HR Committee	Human Resource Committee
IAH	Investment Account Holder
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT Committee	Information Technology Committee
IRR	Investment Risk Reserve
MLG	Minimum Liquidity Guidelines
PCD	Prudential Consolidation and Deduction Requirements Module
PD	Public Disclosure
PER	Profit Equalisation Reserve
PSIA	Profit Sharing Investment Account
RCSA	Risk and Control Self-Assessment
RMC	Risk Management Committee
RWE	Risk Weighted Exposures
VaR	Value-at-Risk
L/C	Letter of Credit
L/G	Letter of Guarantee

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