

بنك البحرين الإسلامي



**OFFEREE BOARD CIRCULAR DATED 12 DECEMBER 2019**

**THIS OFFEREE BOARD CIRCULAR (“CIRCULAR”) IS IMPORTANT AS IT CONTAINS THE RECOMMENDATIONS OF THE INDEPENDENT COMMITTEE OF THE BOARD OF DIRECTORS OF BAHRAIN ISLAMIC BANK B.S.C. (“BISB” OR THE “OFFEREE”) AND THE ADVICE OF THE PROFESSIONAL INDEPENDENT ADVISER. THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.**

**Prior to making a decision, each recipient of this Circular is responsible for obtaining independent advice for considering the appropriateness of the Offer with regard to their respective objectives, financial situation and investment needs. If you are in doubt about any aspect of this Circular, you should consult a licensed securities dealer or licensed institution in securities, a bank manager, solicitor or attorney, professional accountant, or other professional adviser.**

If you have sold or transferred all your shares in BisB, you should immediately forward this Circular together with the Offer Document and Acceptance and Transfer Form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.



**BAHRAIN ISLAMIC BANK B.S.C.**

(Incorporated in the Kingdom of Bahrain under Commercial Registration No.: 9900)

**CIRCULAR TO SHAREHOLDERS OF BAHRAIN ISLAMIC BANK B.S.C.**

**in relation to the**

**VOLUNTARY CONDITIONAL OFFER TO ACQUIRE UP TO 100% OF THE ISSUED AND PAID UP ORDINARY SHARES OF BAHRAIN ISLAMIC BANK B.S.C. SUBJECT TO A MINIMUM ACQUISITION OF 40.94% OF THE ISSUED SHARE CAPITAL OF BAHRAIN ISLAMIC BANK B.S.C., BRINGING NATIONAL BANK OF BAHRAIN B.S.C.’S TOTAL STAKE IN BAHRAIN ISLAMIC BANK B.S.C. TO A MINIMUM OF 70% FOR EITHER CASH OR SHARES EXCHANGE AT THE OPTION OF EACH SHAREHOLDER OF BAHRAIN ISLAMIC BANK B.S.C.**

**BY**

**NATIONAL BANK OF BAHRAIN B.S.C. (“NBB”)**



**PROFESSIONAL INDEPENDENT ADVISER**



بنك الخليج الدولي

Gulf International Bank B.S.C  
(Commercial Registration No.: 4660)

**LEGAL ADVISER TO BAHRAIN ISLAMIC BANK B.S.C.**



ZU'BI & PARTNERS  
Attorneys & Legal Consultants

Zu'bi & Partners Attorneys & Legal Consultants  
(Commercial Registration No.: 54272)

**DISCLAIMER STATEMENT**

THE CENTRAL BANK OF BAHRAIN, THE BAHRAIN BOURSE AND THE MINISTRY OF INDUSTRY, COMMERCE AND TOURISM, IN THE KINGDOM OF BAHRAIN, ASSUME NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS OFFEREE BOARD CIRCULAR AND EXPRESSLY DISCLAIM ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWEVER ARISING FROM THE RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS OFFEREE BOARD CIRCULAR.

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**BAHRAIN ISLAMIC BANK B.S.C.**

(Incorporated in the Kingdom of Bahrain  
under Commercial Registration No.: 9900)

**OFFEREE BOARD CIRCULAR**

## DIRECTORS' DECLARATION

**UNLESS OTHERWISE STATED IN THIS CIRCULAR, THE DIRECTORS OF BAHRAIN ISLAMIC BANK B.S.C. ISSUING THIS OFFEREE BOARD CIRCULAR, WHOSE NAMES APPEAR IN THIS DOCUMENT, JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF INFORMATION CONTAINED IN THIS CIRCULAR INCLUDING THE APPENDICES. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS, WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS CIRCULAR IS IN ACCORDANCE WITH THE FACTS AND CONTAINS NO OMISSIONS LIKELY TO AFFECT THE IMPORTANCE AND COMPLETENESS OF THIS CIRCULAR.**

### STATEMENT FROM THE BOARD OF DIRECTORS OF BAHRAIN ISLAMIC BANK B.S.C.

This Offeree Board Circular has been prepared by Bahrain Islamic Bank B.S.C. to provide information to its shareholders in connection with the Offer made by National Bank of Bahrain B.S.C. to acquire up to 100% of the issued and paid up ordinary shares of Bahrain Islamic Bank B.S.C., subject to a minimum acquisition of 40.94% of the issued share capital of Bahrain Islamic Bank B.S.C., bringing National Bank of Bahrain B.S.C.'s total stake in Bahrain Islamic Bank B.S.C. to a minimum of 70% for either cash or shares exchange at the option of each shareholder of Bahrain Islamic Bank B.S.C.

**IN ACCORDANCE WITH THE TAKEOVERS, MERGERS AND ACQUISITIONS MODULE OF THE CENTRAL BANK OF BAHRAIN RULEBOOK VOLUME 6, THE RECOMMENDATIONS TO THE SHAREHOLDERS IN RELATION TO THE OFFER CONTAINED IN THIS CIRCULAR HAVE BEEN MADE BY THE INDEPENDENT COMMITTEE OF THE BOARD OF DIRECTORS RATHER THAN THE ENTIRE BOARD. THE INDEPENDENT COMMITTEE OF THE BOARD OF DIRECTORS HAS NOT CONSULTED WITH THE OTHER MEMBERS OF THE BOARD IN RELATION TO MAKING RECOMMENDATIONS MADE BY THE INDEPENDENT COMMITTEE CONTAINED IN THIS CIRCULAR.**

This Circular has been filed with the Central Bank of Bahrain in the Kingdom of Bahrain, in accordance with the requirements of Central Bank of Bahrain Rulebook Volume 6, Takeovers, Mergers and Acquisitions Module.

The Board of Directors of Bahrain Islamic Bank B.S.C. hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Circular is, to the best of its knowledge, in accordance with the facts and contains no material omissions.

#### Board of Directors of Bahrain Islamic Bank B.S.C.:

Name of Director	Title
Dr. Esam Abdulla Fakhro	Chairman
Mr. Brigadeir Ebrahim Abdulla Al-Mahmood	Vice Chairman
Mr. Khalid Yousif Abdul Rahman	Board Member
Mr. Muhammad Zarrug Rajab	Board Member
Mr. Mohammed Abdulla Al Jalahma	Board Member
Mr. Abdulla Ahmed Kamal	Board Member
Mr. Khalid Abdulaziz Al Jassim	Board Member
Mr. Marwan Khaled Tabbara	Board Member
Mr. Mohamed Abdulla Nooruddin	Board Member



On behalf of the Board of Directors  
**Dr. Esam Abdulla Fakhro**  
 Chairman of the Board of Directors  
 12 December 2019

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## I. CORPORATE INFORMATION

<b>Board of Directors</b>	Dr. Esam Abdulla Fakhro Mr. Brigadeir Ebrahim Abdulla Al-Mahmood Mr. Khalid Yousif Abdul Rahman Mr. Muhammad Zarrug Rajab Mr. Mohammed Abdulla Al Jalahma Mr. Abdulla Ahmed Kamal Mr. Khalid Abdulaziz Al Jassim Mr. Marwan Khaled Tabbara Mr. Mohamed Abdulla Nooruddin
<b>Names of Members of the Independent Committee</b>	Mr. Mohamed Abdulla Nooruddin Mr. Khalid Abdulaziz Al Jassim Mr. Marwan Khaled Tabbara
<b>Shariah Supervisory Board</b>	Rev. Sh. Dr. A.Latif Al Mahmood Rev. Sh. Mohammed Al Juffairi Rev. Sh. Adnan Abdullah Al Qattan Rev. Sh. Dr. Nedham Mohammed Saleh Yacoubi Rev. Shaikh Dr. Essam Khalaf Al Enizi
<b>Executive Management</b>	Mr. Hassan Jarrar – Chief Executive Officer Mr. Fahim Shafiqi – Chief Risk Officer Mr. Wesam Baqer – Chief Corporate & Institutional Banking Mr. Dawood Al Ashhab – Chief Shared Services Officer Mr. Mazar Rashid Mohammed Jalal – Chief Compliance & Governance Mrs. Maisa Shunnar – Chief Strategy Implementation & Transformation Mr. Hussain Al Banna – Head of Treasury Mr. Osama Nasr – Chief Information Officer Mr. Ameer A. Ghani Dairi – Chief Financial Officer Mrs. Dalal Al Qais – Chief Retail Banking Mr. Mahmood Qannati – Chief Corporate Communications & Marketing Mrs. Eman Ali Abdulla – Head of Central Operations Mr. Khalid Waheeb Alnaser – Chief Internal Audit
<b>Registered Office</b>	P. O. Box 5240, Al Salam Tower, Diplomatic Area, Manama, Kingdom of Bahrain.
<b>Share Registrar</b>	Bahrain Clear B.S.C.(c)
<b>Receiving Agent</b>	SICO B.S.C.(c)
<b>Professional Independent Adviser to the Independent Committee of the Board of Directors in relation to the Offer</b>	Gulf International Bank B.S.C.
<b>Legal Counsel to the Offeree in relation to the Offer</b>	Zubi and Partners Consultants WLL (also known as Zu'bi & Partners Attorneys and Legal Consultants)
<b>External Auditor of the Offeree</b>	KPMG Fakhro, Bahrain

## II. DEFINITIONS

Words and expressions not otherwise defined in this Circular have, unless the context otherwise requires, the following meanings:

<b>Acceptance</b>	The acceptance of the Offer by a BisB Shareholder by signing the Acceptance and Transfer Form and submitting the same to the Receiving Agent within the Offer Period as per the procedures prescribed in the Offer Document
<b>Acceptance and Transfer Form</b>	The form prepared by the Receiving Agent and distributed by BisB to BisB Shareholders to participate in the Offer
<b>Adviser's Opinion or Professional Independent Adviser's Opinion</b>	The fairness opinion dated 4 December 2019 issued by the Professional Independent Adviser to the Independent Committee containing their advice and recommendation on the Offer, set out in section VI of this Circular
<b>Bahrain</b>	Kingdom of Bahrain
<b>Bahrain Clear</b>	Bahrain Clear B.S.C.(c)
<b>BHB</b>	Bahrain Bourse
<b>BHD</b>	Bahraini Dinar, the legal currency of the Kingdom of Bahrain
<b>BisB or Offeree</b>	Bahrain Islamic Bank B.S.C., commercial registration number 9900 licensed and regulated by the CBB as an Islamic retail bank and listed on the BHB
<b>BisB Shareholder</b>	A holder of BisB Shares as of the date which is two (2) Business Days following the Last Trading Date and one (1) Business Day after the Suspension of Trading Date for BisB Shares for the purposes of the Offer
<b>BisB Shares</b>	BisB's issued and paid up ordinary shares totaling 1,064,058,587 shares
<b>Board</b>	The Board of Directors of BisB
<b>Business Day</b>	A day on which banks, financial institutions and the BHB are open for general business in the Kingdom of Bahrain
<b>Cash Offer</b>	The cash offer by NBB, to acquire up to 100% of the issued and paid up ordinary shares of BisB for cash of BHD 0.117 per BisB Share subject to a minimum acquisition of 40.94%, increasing NBB's total ownership of the issued share capital of BisB to at least 70%, as described in the Offer Document collectively through the Cash Offer and the Share Exchange Offer
<b>CBB</b>	The Central Bank of Bahrain
<b>Certified Copy</b>	A copy of a document certified as a true copy of the original from any of the following from a GCC or FATF member state: a. a lawyer; b. a notary; c. a chartered/certified accountant; d. an official of a government ministry; e. an official of an embassy or consulate; or f. an official of the Offeror, Offeree, or another licensed financial institution
<b>Circular</b>	This Circular to BisB Shareholders in relation to the Offer enclosing, inter-alia, the recommendations of the Independent Committee and the Adviser's Opinion

**II. DEFINITIONS (continued)**

<b>CMSD</b>	The Capital Markets Supervision Directorate of the CBB
<b>Conditions Precedent</b>	The conditions set out in section 3.6 of the Offer Document
<b>CSD</b>	The Central Securities Depository at Bahrain Clear
<b>Demat</b>	Dematerialised
<b>Director</b>	A person holding office as a director of BisB on the Latest Practicable Date
<b>EGM</b>	Extraordinary General Meeting
<b>FATF</b>	Financial Action Task Force
<b>Final Closing Date</b>	Initial Offer Closing Date or date falling on the 15 <sup>th</sup> calendar day from the date of announcement on the Offer having been revised or become unconditional, whichever is later
<b>Firm Intention</b>	The notice of firm intention to make an Offer issued by NBB to the Board on 3 November 2019, as updated
<b>GCC</b>	Gulf Cooperation Council, comprising the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, the Kingdom of Saudi Arabia and the United Arab Emirates
<b>IBAN</b>	International Bank Account Number
<b>Independent Committee or the Independent Committee of the Board of Directors</b>	The Independent Committee of the Board of Directors of the Offeree, comprising only the non-conflicted Directors of the Offeree
<b>Initial Offer Closing Date</b>	Fifteen (15) calendar days from the Offer Opening Date, being the last date, subject to extension and subject to the Final Closing Date, for receiving the completed Acceptance and Transfer Form
<b>Investor Number (IN)</b>	A unique number issued by Bahrain Clear for any investor who opens a securities depository account at Bahrain Clear
<b>Latest Practicable Date</b>	1 December 2019, the dispatch date, being the latest practicable date prior to the printing of this Circular
<b>Last Trading Date</b>	12 December 2019, being the date two (2) Business Days prior to the Offer Opening Date
<b>Minor</b>	A person who is below 21 years of age
<b>MOICT</b>	The Ministry of Industry, Commerce and Tourism of the Kingdom of Bahrain
<b>NBB</b>	National Bank of Bahrain B.S.C., commercial registration number 269 licensed and regulated by the CBB as a conventional retail bank and listed on the BHB
<b>NBB Board</b>	The Board of Directors of National Bank of Bahrain B.S.C.
<b>NBB Firm Intention Announcement Date</b>	The date on which the Firm Intention was sent by NBB, being 3 November 2019, as updated



## II. DEFINITIONS (continued)

<b>New NBB Shares</b>	Each additional ordinary share of NBB, with an approved issuance of up to approximately 145,000,000, such shares (approximation subject to rounding as described in section 4.3 of the Offer Document) resulting from an increase in the share capital of NBB to be issued to those BisB Shareholders who have opted for the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BisB Shareholder in exchange for their BisB Shares, provided that the Offer becomes unconditional after the fulfilment of the Conditions Precedent
<b>Offer or NBB Offer</b>	The Offer by NBB to acquire up to 100% of the issued and paid up ordinary shares of BisB subject to the satisfaction, or waiver by NBB, of the Conditions Precedent including a minimum acquisition of 40.94% increasing NBB's total ownership of the issued share capital of BisB to at least 70% as described in the Offer Document through the Cash Offer and the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BisB Shareholder
<b>Offer Acceptance/ Rejection Announcement Date</b>	One (1) Business Day after the Final Closing Date, being the date by which the acceptance or rejection of the Offer will be communicated to the BisB Shareholders
<b>Offer Document or NBB Offer Document</b>	NBB Offer Document prepared in connection with the Offer dated 24 November 2019
<b>Offer Opening Date</b>	18 December 2019 being the date from which the completed Acceptance and Transfer Forms will be received by the Receiving Agent
<b>Offer Period</b>	The period beginning on the Offer Opening Date and ending on the Final Closing Date
<b>Offer Settlement Date</b>	Means the date announced subsequent to the Offer Acceptance/Rejection Announcement Date, and subject to the Offer becoming unconditional, whereby BisB Shareholders participating in the Offer will receive their payment in cash or shares once all regulatory procedures are complete
<b>Offeree</b>	Bahrain Islamic Bank B.S.C.
<b>Offeror</b>	National Bank of Bahrain B.S.C.
<b>Participating Branches</b>	The branches of each of NBB and BisB listed in section 4.1.12 of the Offer Document that will be receiving Acceptance and Transfer Forms during the Offer Period
<b>Professional Independent Adviser</b>	Gulf International Bank B.S.C., being the professional independent adviser appointed by the Independent Committee in connection with the Offer
<b>Receiving Agent</b>	SICO B.S.C.(c), the entity appointed by the Offeror which is authorised to receive Acceptance and Transfer Forms in accordance with the Offer Document and through the Participating Branches
<b>Recommendations of the Independent Committee</b>	The recommendations of the Independent Committee to the BisB Shareholders in relation to the NBB Offer as set out in the Letter from the Independent Committee in section V of this Circular
<b>Restricted Jurisdiction</b>	Any jurisdiction where the making or the acceptance of the Offer would violate the laws of the jurisdiction
<b>Securities Account</b>	An account with a brokerage firm authorised by the Bahrain Bourse

## II. DEFINITIONS (continued)

<b>Settlement Date</b>	The date announced subsequent to the Offer Acceptance/Rejection Announcement Date, and subject to the Offer becoming unconditional, whereby BisB Shareholders participating in the Offer will receive their payment in cash or shares once all regulatory procedures are complete
<b>Share Exchange Offer</b>	The share exchange offer by NBB, as an alternative to the Cash Offer at the option and discretion of each BisB Shareholder, to acquire up to 100% of the issued and paid up ordinary shares of BisB in exchange for New NBB Shares at an exchange ratio of 0.167 New NBB Shares per BisB Share subject to a minimum acquisition of 40.94%, increasing NBB's total ownership of the issued share capital of BisB to at least 70%, as described in the Offer Document collectively through the Cash Offer and the Share Exchange Offer
<b>Share Exchange Ratio</b>	The exchange ratio of 0.167 New NBB Shares per BisB Share for the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BisB Shareholder provided that the Offer becomes unconditional after the fulfilment of the Conditions Precedent
<b>Suspension of Trading Date for BisB Shares</b>	15 December 2019, being the date one (1) Business Day prior to the Offer Opening Date upon which BisB Shares will be suspended from trading on the Bahrain Bourse
<b>TMA</b>	The Takeovers, Mergers and Acquisitions Module of the CBB Rulebook, Volume 6
<b>Unconditional Date</b>	The date on which the Offer becomes or is declared unconditional as to Acceptances
<b>VWAP</b>	Volume Weight Average Price per Share

## III. EXPECTED TIMETABLE

### Offer Timetable and key dates

Notice of non-binding intent to acquire up to 100% of the issued share capital of BisB, subject to the outcome of the confirmatory due diligence exercise by NBB on BisB	22 July 2019
NBB Firm Intention Announcement Date	3 November 2019
Receipt of the Offer Document	24 November 2019
Latest Practicable Date	1 December 2019
Date of this Circular	12 December 2019
Posting Date of this Circular, the Offer Document and Acceptance & Transfer Form to BisB Shareholders	12 December 2019
Last Trading Date	12 December 2019
Suspension of Trading Date for BisB Shares	15 December 2019
Offer Opening Date	18 December 2019
Initial Offer Closing Date*	2 January 2020
Final Offer Closing Date*	To be announced
Offer Acceptance/Rejection Announcement Date*	To be announced
Settlement Date*	To be announced
Resumption of trading in BisB shares*	To be announced

\* These dates are subject to changes and depend on the date of declaration of the NBB Offer having been revised or become unconditional, whichever is later. Announcements will be made in accordance with the CBB regulations to BisB Shareholders, as applicable.

## IV. LETTER TO BISB SHAREHOLDERS FROM THE BOARD

### BAHRAIN ISLAMIC BANK B.S.C.

(Incorporated in the Kingdom of Bahrain with Commercial Registration No.: 9900)

#### Registered Office:

P. O. Box 5240, Al Salam Building  
Diplomatic Area, Manama  
Kingdom of Bahrain

12 December 2019

To,

**The Shareholders of Bahrain Islamic Bank B.S.C.**

Dear Sir/Madam,

**National Bank of Bahrain B.S.C.'s voluntary conditional offer to acquire up to 100% of the issued and paid up ordinary shares of Bahrain Islamic Bank B.S.C. subject to a minimum acquisition of 40.94% of the issued share capital of Bahrain Islamic Bank B.S.C., bringing National Bank of Bahrain B.S.C.'s total stake in Bahrain Islamic Bank B.S.C to a minimum of 70% for either cash or shares exchange at the option of each shareholder of Bahrain Islamic Bank B.S.C.**

## 1. INTRODUCTION

### 1.1. Circular

The purpose of this Circular is to provide relevant information to the BisB Shareholders in compliance with the TMA and pertaining to the Offer and to set out the Recommendations of the Independent Committee of the Board of Directors and the Professional Independent Adviser's Opinion to the Independent Committee in relation to the Offer.

### 1.2. Background

- 1.2.1 On 30 May 2019, as per the Offer Document, NBB submitted an application to the CBB seeking its approval to increase its shareholding in BisB (in NBB's capacity as a controller of BisB).
- 1.2.2 On 30 June 2019, as per the Offer Document, the CBB communicated its approval to NBB in relation to the potential increase of NBB's holdings in BisB from above 20% to over 30% of the issued and paid up share capital of BisB and also for NBB's acquisition of up to 100% of the BisB Shares.
- 1.2.3 On 22 July 2019, BisB received NBB's non - binding intent to acquire up to 100% of the issued share capital of BisB, subject to the outcome of the confirmatory due diligence exercise by NBB on BisB.
- 1.2.4 In accordance with the TMA rule 2.2.1, the Independent Committee was established on 22 September 2019 to discharge the responsibilities of the Board of BisB in relation to the NBB Offer due to the conflicts of interest of certain Directors. The Independent Committee consists of Mr. Mohamed Abdulla Nooruddin, Mr. Khalid Abdulaziz Al Jassim and Mr. Marwan Khaled Tabbara, all of whom have disclosed any interest they have in the NBB Offer and it has been concluded that no such interest exists that would be contrary to the requirements of the TMA. All other Directors who are not members of the Independent Committee have disclosed their conflict of interest and have abstained from all discussions and decisions made in relation to the Offer.

## 1. INTRODUCTION (continued)

### 1.2. Background (continued)

- 1.2.5 In accordance with TMA rule 2.2.1, on 30 September 2019, the Independent Committee appointed Gulf International Bank B.S.C. as its Professional Independent Adviser to provide advice to the Independent Committee in respect of the Offer, in particular, as to whether the Offer is, or is not, fair and reasonable and as to acceptance of the Offer, once received. The fairness opinion of the Professional Independent Adviser is set out in section VI of this Circular.
- 1.2.6 On 7 October 2019, the Shari'a Supervisory Board of BisB issued a fatwa approving the possible acquisition of 100% shares of BisB by NBB for cash only. The Shari'a Supervisory Board has specifically prohibited a share swap. The Shari'a Supervisory Board fatwa has been provided at Appendix B of this Circular.
- 1.2.7 On 3 November 2019, BisB received from NBB its Firm Intention to make an Offer (as updated on the same date) to acquire up to 100% of the BisB Shares with a minimum threshold of 40.94%, bringing NBB's total stake in BisB to a minimum of 70% for either cash or shares exchange at the option of each BisB Shareholder.
- The consideration for the Offer is either:
- (a) In cash of BHD 0.117 per share; or
  - (b) New shares in the Offeror at a share exchange ratio of 0.167 NBB shares per BisB Share, at the option of the holders of BisB Shares.
- 1.2.8 On 24 November 2019, BisB received a voluntary conditional offer document from NBB to acquire up to 100% of the issued and paid up ordinary shares of BisB subject to a minimum acquisition of 40.94% of the total issued share capital of BisB, bringing NBB's total stake in BisB to a minimum of 70% for either cash or shares exchange at the option of each shareholder of BisB, subject to the fulfilment of certain other Conditions Precedent as set out in section 3.6 of the NBB Offer Document. The consideration set out in 1.2.7 above was reiterated in the NBB Offer.
- 1.2.9 The Acceptance and Transfer Form is enclosed with this Circular.
- 1.2.10 The BisB Shareholders should, at a minimum, carefully and diligently consider the following before deciding on whether or not to accept the NBB Offer:
- (i) the letter to the BisB Shareholders from the Board as set out in section IV of this Circular;
  - (ii) the letter to the BisB Shareholders from the Independent Committee containing the Recommendation of the Independent Committee as set out in section V of this Circular;
  - (iii) the fairness opinion of the Professional Independent Adviser as set out in section VI of this Circular;
  - (iv) the terms and conditions as mentioned in the enclosed NBB Offer Document;
  - (v) the terms and conditions as mentioned in the Acceptance and Transfer Form;
  - (vi) the Shari'a Supervisory Board Fatwa; and
  - (vii) the independent professional advice sought and as deemed appropriate.

## 2. THE NBB OFFER

Information on the NBB Offer is available in section 3 of the NBB Offer Document. The information set out below is reproduced from the Offer Document:

The Board of Directors of NBB refer to the Firm Intention dated 3 November 2019 whereby the Board of Directors of BisB were notified of NBB's Firm Intention to make an Offer to the BisB Shareholders to acquire their shares in BisB. The details of the Offer are set out below.

## 2. THE NBB OFFER (continued)

### 2.1. The Offeree and Securities for which the Offer is made

BisB is registered with the MOICT under commercial registration number 9900 as a public Bahraini shareholding company whose ordinary shares are listed on the BHB and regulated as an Islamic retail bank by the CBB.

The Offer is to acquire between 435,634,745 and 754,852,321 ordinary shares which have a par value of 100 fils each in BisB, representing between 40.94% and 70.94%, of BisB's issued and paid up share capital.

### 2.2. The Offeror

NBB is registered in the Kingdom of Bahrain with the MOICT under commercial registration number 269 as a public Bahraini shareholding company whose ordinary shares are listed on the BHB and regulated as a conventional retail bank by the CBB.

### 2.3. Consideration for the Offer

The consideration for the Cash Offer is BHD 0.117 per BisB Share provided that the Offer becomes unconditional after the fulfilment, or waiver by NBB, of the Conditions Precedent. Assuming that all BisB Shareholders avail of the Cash Offer, the total value of the Offer would be BHD 88,317,721.557.

The consideration for the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BisB Shareholder is the issue of New NBB Shares at a Share Exchange Ratio of 0.167 New NBB Shares per BisB Share provided that the Offer becomes unconditional after the fulfilment, or waiver by NBB, of the Conditions Precedent.

BisB Shareholders are notified that NBB is a conventional retail financial institution and as such the New NBB Shares offered as an alternative to the Cash Offer are not a Shari'a compliant investment.

The Offer price was determined based on the financial and non-financial information provided by BisB during the limited due diligence exercise carried out by NBB on BisB.

### 2.4. Shareholders Eligible For the Offer

BisB Shareholders whose names appear in the BisB Share register two (2) Business Days after the Last Trading Date, i.e. 18 December 2019, being one (1) Business Day after the Suspension of Trading Date for BisB Shares, will be eligible to receive the Offer.

### 2.5. Suspension of Trading

Trading in BisB Shares will be suspended from 15 December 2019, being the Suspension of Trading Date for BisB Shares. Trading in BisB Shares will resume on the date one (1) Business Day after the Settlement Date.

### 2.6. Conditions Precedent To The Offer

The implementation of the Offer will be subject to the fulfilment, or waiver by NBB where applicable, of the following conditions precedent. For avoidance of doubt, the offer shall not become unconditional unless the below 4 Conditions Precedent are fulfilled, or waived by NBB:

- a) Acceptances are received in respect of at least 435,634,745 BisB Shares representing 40.94% of the entire issued share capital of BisB, which would result in total ownership by NBB of at least 70% of the total issued share capital of BisB;
- b) Receipt of all regulatory and statutory approvals in connection with the Offer;
- c) The shareholders of NBB approving the increase in issued and paid up capital of NBB and waiving their statutory rights of pre-emption in respect of those shares in favour of BisB Shareholders provided that the Offer becomes unconditional after the fulfilment, or waiver by NBB, of the Conditions Precedent;
- d) BisB does not undertake any of the following from the date of the Firm Intention until the expiration of the Offer Period:

## 2. THE NBB OFFER (continued)

### 2.6. Conditions Precedent To The Offer (continued)

- (i) issue any shares and /or distribute cash dividends;
- (ii) create, issue or grant, or permit the creation, issue or grant of, any convertible securities, options or warrants in respect of shares of the BisB;
- (iii) other than in the normal course of business, sell, dispose of or acquire assets;
- (iv) enter into contracts, including service contracts, otherwise than in the ordinary course of business, including contracts or actions which may give rise to any contingent liability;
- (v) cause BisB or any subsidiary or associate of BisB to purchase or redeem any shares in BisB or provide financial assistance for any such purchase;
- (vi) acquire any company, partnership, other business organization or division thereof, or enter into any joint venture, or strategic alliance;
- (vii) enter into any commitment, agreement or arrangement for assumption of third party financing or bank debt or any other loan or debt, nor obtain or procure any such financing for BisB;
- (viii) make any changes in the memorandum and articles of association or nature of bank licence or registered address of BisB;
- (ix) amend, waive, modify or consent to the termination of any contract or the BisB's rights thereunder other than in the ordinary course of business consistent with past practice;
- (x) enter into any contract which is not in the ordinary course of business with any related party;
- (xi) enter into any formal or informal agreement, or otherwise make a commitment to do any of the foregoing; or
- (xii) carry out any actions prohibited by the TMA.

If the first above-mentioned condition is waived by NBB at its discretion, it shall be on the basis that, and subject at all times to, the requirement that the total ownership by NBB following the Offer shall be of more than 50% of the total issued share capital and voting rights of BisB in accordance with TMA Rule 3.3.2.

Under TMA Rule 2.14.5, except with the consent of the CBB, all conditions must be fulfilled or the Offer must lapse within fifteen (15) calendar days of the Initial Offer Closing Date or of the Unconditional Date, whichever is the later.

Under TMA Rule 2.14.3, setting out the 'final day rule', except with the consent of the CBB, the Offer may not become or be declared unconditional as to acceptances after the official working hours on the 60th day after the date the Offer Document was posted, i.e. after 23 January 2020.

More guidance on the expected timetable for the Offer is provided in Section III of this Circular.

**Shareholders and/or potential investors of BisB should note that the Offer is subject to the satisfaction or waiver (where applicable) of the Conditions Precedent and conditional upon, the Offer becoming or being declared unconditional in all respects. Accordingly, the Offer may or may not become unconditional. Shareholders and/or potential investors of BisB should therefore exercise caution when dealing in the securities of BisB. Persons who are in doubt as to the action they should take should consult their licensed brokers, dealers, solicitors, professional accountants or other professional advisers.**

## 2. THE NBB OFFER (continued)

### 2.7. Offer Acceptance Procedures

BisB Shareholders willing to accept the Offer may potentially be holding the BisB Shares in one of the following forms:

- a) shares in Demat form held in a brokerage account with a registered broker in the BHB;
- b) shares in Demat form held in the CSD of Bahrain Clear; or
- c) shares in physical form with an original share certificate only.

Please refer to section IV (9) of this Circular for further details.

### 2.8. Rights Of The New NBB Shares

Share Ranking - New NBB Shares shall rank pari passu with the existing ordinary shares of NBB. Other than ordinary shares, NBB has not issued any other classes of shares.

Dividend Rights - Provided that the Offer becomes unconditional after the fulfilment of the Conditions Precedent, BisB Shareholders who accept the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BisB Shareholder will be entitled to any dividends declared by NBB pertaining to the financial year ending 31 December 2019 and for subsequent financial years on a pari passu basis with other holders of shares in NBB.

Voting, Capital Distributions and Liquidation Rights - Holders of the New NBB Shares will enjoy all the rights and obligations of the existing shareholders of NBB, including but not limited to, participation and voting in shareholders general assembly meetings and participation on a pari passu basis in any distributions or other returns of capital whether on a liquidation or otherwise.

### 2.9. Acceptance Irrevocable

Upon a BisB Shareholder submitting the completed Acceptance and Transfer Form to the Receiving Agent, the Acceptance becomes irrevocable and cannot be withdrawn by that BisB Shareholder either in whole or in part except if, as at the Initial Offer Closing Date, the Conditions Precedent remain unfulfilled or have not been waived by NBB. An acceptor will be entitled to withdraw his acceptance after 14 days from the Initial Closing Date of the Offer, if the Offer has not become unconditional as to acceptances by that date. Such entitlement to withdraw will be exercisable until the Unconditional Date but subject to relevant provisions of the TMA.

## 3. POST-ACQUISITION STRATEGY OF NBB FOR BISB, EFFECT OF THE NBB OFFER AND PROPOSED FINANCING OF NBB OFFER

The post-acquisition strategy of NBB for BisB, the effect of the NBB Offer and the proposed financing of NBB Offer are set out in sections 9, 13 and 15 respectively of the NBB Offer Document.

## 4. OPINION ON IMPACT ON OFFEREE'S EMPLOYEES

As per section 9.4 of the NBB Offer Document, in the medium term it is anticipated that each of NBB's and BisB's key employees would be assessed and evaluated for best fit under the new structure. This would entail evaluation of current job roles and descriptions and implementation of new consolidated roles to maximize synergies and reduce inefficiencies and duplications. The proposed acquisition is expected to provide employees with improved opportunities for individual growth, career enhancements and job security.

Neither the Board nor the Independent Committee has made any assessments or evaluations of the effect of the successful completion of the transaction on the Offeree's employees and have relied on the representations and statements made by NBB as above.

## 5. INFORMATION ABOUT THE OFFEREE

Relevant information about the Offeree is covered in Appendix A of this Circular.

## **6. INFORMATION ABOUT NBB**

Relevant information about NBB has been set out in section 5 of the NBB Offer Document.

## **7. RECOMMENDATIONS OF THE INDEPENDENT COMMITTEE AND THE ADVISER'S OPINION**

Your attention is drawn to (i) the letter to the BisB Shareholders from the Board as set out in section IV of this Circular; (ii) the letter to the BisB Shareholders from the Independent Committee set out in section V of this Circular which contains the recommendation of the Independent Committee as to whether the Offer is, or is not, fair and reasonable and whether or not the Shareholders should accept the NBB Offer; and (iii) the fairness opinion of the Professional Independent Adviser set out in section VI of this Circular which contains the Professional Independent Adviser's Opinion to the Independent Committee in connection with the Offer and the principal factors considered by it in arriving at its opinion. BisB Shareholders should read these letters in conjunction with this Circular and the Offer Document carefully before taking any action in respect of the Offer.

## **8. BISB SHAREHOLDERS' RESPONSIBILITIES**

### **8.1 Compliance with Applicable Laws**

The availability of the Offer to the BisB Shareholders might be affected by the laws of their respective jurisdiction in which they are based. Accordingly, any BisB Shareholder should inform himself /herself about and observe any applicable legal requirements in their respective jurisdiction.

For the avoidance of doubt, the Offer is made to all BisB Shareholders including those to whom the Offer Document, Acceptance and Transfer Form, the Circular and any other related documents have not been, or will not be, sent.

Where there are potential restrictions on sending the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents to any jurisdiction, the Offeree reserves the right not to send the documents to BisB Shareholders in such jurisdictions. However, the Offeree may at its sole discretion take such action as it may deem necessary to send this Circular to BisB Shareholders in any jurisdiction.

The Offer may be made, directly or indirectly, in or into, or by the use of mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction, and any BisB Shareholder should inform himself /herself about and observe any applicable legal requirements in their respective jurisdiction.

It is the responsibility of any BisB Shareholder who wishes to (i) request for the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents, or (ii) accept the NBB Offer, to satisfy himself /herself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, and compliance with all necessary formalities or legal requirements and the payment of any taxes, imposts, duties or other requisite payments due in such jurisdiction. Such BisB Shareholders shall be liable for any such taxes, imposts, duties or other requisite payments payable and the NBB Board and any person acting on its behalf shall be fully indemnified and held harmless by such BisB Shareholder for any such taxes, imposts, duties or other requisite payments as the Independent Committee and/or any person acting on its behalf may be required to pay. In (i) requesting for the Offer Document, the Acceptance and Transfer Form, the Circular and any other related documents and/or (ii) accepting the NBB Offer, the BisB Shareholder represents and warrants to the Independent Committee that he /she is in full observance of the laws of the relevant jurisdiction in that connection, and that he /she is in full compliance with all necessary formalities or legal requirements. Any BisB Shareholder who is in any doubt about his /her position should consult his /her professional adviser in the relevant jurisdiction.



## 8. BISB SHAREHOLDERS' RESPONSIBILITIES (continued)

### 8.2 Copy of Offer Documents

BisB Shareholders may obtain a copy of this Circular, the Offer Document, the Acceptance and Transfer Form, and any other related documents, from the below locations:

No.	Branch Name	Address	Telephone Number(s)	Opening Days	Morning Hours	Evening Hours
1	SICO B.S.C.(c) Receiving Desk at Bahrain Bourse	4 <sup>th</sup> Floor, Harbour Gate, Bahrain Financial Harbour, Manama, Kingdom of Bahrain	(973) 17 51 5022	Sunday to Thursday	9:00 am-1:00 pm	
2	BisB - Head Office	Road 1708, Block 317, Building 722, Al Salam Tower, Kingdom of Bahrain	(973) 17 51 5151	Sunday to Thursday	8:00 am-4:00 pm	
3	BisB - Budaiya Financial Mall	Building 423, Road 7317, Abu Sayba 473, Northern Governorate, Kingdom of Bahrain	(973) 17 51 5151	Sunday, Tuesday, Thursday	8:00 am-3:00 pm	
				Monday, Wednesday	8:00 am-1:00 pm	3:00 pm-5:00 pm
4	BisB - Hamad Town Financial Mall	Building 1247, Road 317, Block 1203, Hamad Town, Kingdom of Bahrain	(973) 17 51 5151	Sunday, Tuesday	8:00 am-1:00 pm	3:00 pm-5:00 pm
				Monday, Wednesday, Saturday	8:00 am-3:00 pm	
5	BisB - Arad Financial Mall	Commercial Building 1294, Road 4037, Arad 0240, Muharraq Governorate, Kingdom of Bahrain	(973) 17 51 5151	Sunday, Tuesday	8:00 am-1:00 pm	3:00 am-5:00 pm
				Monday, Wednesday, Saturday	8:00 am-3:00 pm	
6	BisB - Riffa Financial Mall	Building 10, Abu Shahin Avenue, Block 921, Bukowarah, Riffa, Kingdom of Bahrain	(973) 17 51 5151	Sunday, Tuesday, Thursday	8:00 am-3:00 pm	
				Monday, Wednesday	8:00 am-1:00 pm	3:00 pm-5:00 pm
7	NBB - Main Branch	Bldg. 120 Government Road, Block 316, Manama, Kingdom of Bahrain	(973) 17 22 8800	Sunday to Thursday	7:30 am-2:00 pm	
8	NBB - Tubli Branch	Shop No. 1, Bldg No. 242, Road No. 73, Block No. 373, Bughazal - Manama, Kingdom of Bahrain	(973) 17 14 2222	Sunday, Tuesday, Wednesday	7:30 am-2:00 pm	
				Saturday to Monday	7:30 am-1:00 pm	4:00 pm-6:30 pm
9	NBB - Seef Mall Branch	Bldg 2102, Road 2825, Block 428, Seef District, Kingdom of Bahrain	(973) 17 58 2666	Saturday to Thursday	10:00 am-8:00 pm	
10	NBB - Atrium Mall Branch	The Atrium Mall & Towers, Ground floor, Unit GF09 & GF10, Building 1224, Road 2719, Saar 527, Kingdom of Bahrain	(973) 17 69 8899	Sunday to Thursday	9:00 am-5:00 pm	
11	NBB - Al Istiqlal Highway Branch	Shop 2422-Z, Sanad Shopping Centre, Al-Istiqlal Avenue, Road 4571, Block 745, Kingdom of Bahrain	(973) 17 62 2611	Sunday, Tuesday, Wednesday	7:30 am-2:00 pm	
				Monday & Thursday	7:30 am-1:00 pm	4:00 pm-6:30 pm

## 8. BISB SHAREHOLDERS' RESPONSIBILITIES (continued)

### 8.3 Notice

The Offeree and/or the Offeror has reserved the right to notify any matter, including the fact that the Offer has been made, to any or all BisB Shareholders by announcement to the BHB and/or paid advertisement in two daily newspapers published and circulated in Kingdom of Bahrain, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any BisB Shareholder to receive or see such announcement or advertisement.

## 9. ACTION TO BE TAKEN BY BISB SHAREHOLDERS

**BisB Shareholders who wish to accept the NBB Offer must do so not later than the close of business on the Final Closing Date.**

There are different procedures for acceptance for BisB Shareholders holding shares in physical or Demat (electronic) form. BisB Shareholders who wish to accept the NBB Offer, possessing shares in physical or Dematerialised form should take note of the "Procedures for Accepting the Offer" as set out in section 4 of the NBB Offer Document and the "Important Instructions for Completion and Submission of this Acceptance and Transfer Form" section of the Acceptance and Transfer Form.

BisB Shareholders who wish to accept the Offer must submit the completed Acceptance and Transfer Form together with all the required documents to the Receiving Agent's address given below either visiting to their offices or sending them by registered mail/ courier, during the Offer Period.

### 9.1 Form Submission

#### 9.1.1 Submission By Individuals

- (a) BisB Shareholders who are individuals and who wish to accept the Offer must submit the following documents:
  - i The original signed Acceptance and Transfer Form;
  - ii The original or Certified Copy and a copy of two of the following three forms of identification:
    - a) the individual's valid passport or valid international travel document;
    - b) the individual's valid national identification card or an equivalent document; and
    - c) the individual's valid driving licence.
  - iii Proof of permanent residential address. The proof can consist of a copy of a recent utility bill, bank statement or similar statement from another bank or financial institution licensed in the country, which have been issued within three months prior to their presentation, or official documentation, such as a smartcard, from a public/governmental authority, or a tenancy agreement;
  - iv If an individual BisB Shareholder has an existing IN and Securities Account, proof of such IN and Securities Account is required in the form of a Bahrain Bourse investor card or statement of account, or a Bahrain Bourse system print-screen. If the individual BisB Shareholder has an existing Securities Account but no designated broker, then proof of such IN can additionally be in the form of an allotment notice from a previous IPO of no earlier than 2006;

## 9. ACTION TO BE TAKEN BY BISB SHAREHOLDERS (continued)

### 9.1.1 Submission By Individuals (continued)

- v Original share certificates for those BisB Shareholders holding physical BisB Shares. Holders of physical BisB Shares can tender all of their BisB Shares but cannot tender part of their holding of BisB Shares without first depositing their physical share certificates at Bahrain Clear. Holders of physical BisB Shares that have been misplaced or damaged are required to obtain replacements of such shares directly from Bahrain Clear prior to submitting their Acceptance and Transfer Form. As an alternative to physical BisB Shares, holders of lost or damaged physical BisB Shares may also approach Bahrain Clear to have such replacement shares issued in electronic form at no additional cost;
  - vi A statement of account from Bahrain Clear or a broker in respect of BisB Shares held in electronic form; and
  - vii Bank account details from the BisB Shareholder's bank in the name of the BisB Shareholder in the form of a bank statement, a bank online system print-screen or a bank letter indicating the IBAN or other account details and bank name. The BisB Shareholder's bank account details will be utilised for any settlement of the Cash Offer and may be used for payment of any future dividends in the case of an acceptance of the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BisB Shareholder.
- (b) The following additional documents are required when a person is signing on behalf of an individual BisB Shareholder by way of a power of attorney:
- i The original or Certified Copy and copy of the valid passport or international travel document of the person applying and signing on behalf of the individual BisB Shareholder;
  - ii The original or Certified Copy and copy of the valid national identification card or an equivalent document of the person applying and signing on behalf of the individual BisB Shareholder; and
  - iii The original or Certified Copy and copy of the notarised (or where from outside the Kingdom of Bahrain, apostilled/legalised) power of attorney.
- (c) The following additional documents are required for applications on behalf of Minors:
- i The original or Certified Copy and copy of the valid passport or valid international travel document of the legal guardian applying and signing on behalf of the Minor;
  - ii The original or Certified Copy and copy of the government-issued valid national identification card or an equivalent document of the legal guardian applying and signing on behalf of the Minor; and
  - iii Unless the legal guardian signing on behalf of the Minor is the Minor's father, the original or Certified Copy and copy of the proof of guardianship to the applying Minor.

### 9.1.2 Submission By Institutions

All institutions must provide the following documentation:

- i The original signed Acceptance and Transfer Form;
- ii A copy of a valid commercial registration certificate of the institution;
- iii A copy of the memorandum and articles of association, or equivalent, of the institution;
- iv The original or Certified Copy and a copy of two of the following three forms of identification in respect of the individual signing on behalf of the institution:
  - a) the individual's valid passport or valid international travel document;
  - b) the individual's valid national identification card or an equivalent document; and
  - c) the individual's valid driving licence.

## 9. ACTION TO BE TAKEN BY BISB SHAREHOLDERS (continued)

### 9.1.2 Submission By Institutions (continued)

- v If the institution has an existing IN and Securities Account, proof of such an IN and Securities Account is required in the form of a Bahrain Bourse investor card or statement of account, or a Bahrain Bourse system print-screen. If the BisB Shareholder has an existing Securities Account but no designated broker, then proof of such IN can additionally be in the form of an allotment notice from a previous IPO of no earlier than 2006;
- vi Original share certificates for those institutions holding BisB Shares in physical form. Holders of physical BisB Shares can tender all of their BisB Shares but cannot tender part of their holding of BisB Shares without first depositing their physical share certificates at Bahrain Clear. Holders of physical BisB Shares that have been misplaced or damaged are required to obtain replacements of such shares directly from Bahrain Clear prior to submitting their Acceptance and Transfer Form. As an alternative to physical BisB Shares, holders of lost or damaged physical BisB Shares may also approach Bahrain Clear to have such replacement shares issued in electronic form at no additional cost;
- vii A statement of account from Bahrain Clear or a broker in respect of their BisB Shares held in electronic form;
- viii The original and copy of the document authorising the person(s), whose signature(s) appear(s) on the Acceptance and Transfer Form to sign such document on behalf of the institution. Such a document can be either a power of attorney or a resolution of the board of the institution; and
- ix Bank account details from the BisB Shareholder's bank in the name of the BisB Shareholder in the form of a bank statement, a bank online system print-screen or a bank letter indicating the IBAN or other account details and bank name. The BisB Shareholder's bank account details will be utilised for any settlement of the Cash Offer and may be used for payment of any future dividends in the case of an acceptance of the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BisB Shareholder.

9.1.3 All completed Acceptance and Transfer Forms, together with the required documentation, should be submitted by hand to any of:

- i the desk of the Receiving Agent listed in section 9.1.12 during the Offer Period;
- ii the Participating Branches of the Offeror listed in section 9.1.12 during the Offer Period; or
- iii the Participating Branches of the Offeree listed in section 9.1.12 during the Offer Period.

In all cases the documents should reach one of the above locations no later than the close of business on the Final Closing Date.

9.1.4 BisB Shareholders who do not have an IN number will be required to obtain an IN number prior to any future transfer of shares using Bahrain Clear Application Form Number 1(A) for individuals and 1(B) for institutions. Certain fees payable to Bahrain Clear may apply. For the avoidance of doubt, this is not a requirement for accepting the Offer.

9.1.5 BisB Shareholders who opt for the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BisB Shareholder and wish to trade such shares on the Bahrain Bourse in the future will be required prior to such trading to open a trading account with a registered broker and open an investor account with Bahrain Clear via Bahrain Clear Application Form Number (2) - Investor Account Opening Form. Subsequently, a BisB Shareholder may transfer the shares from the "CSD to the Broker" via the Bahrain Clear Application Form Number (6) - Transfer application between CSD and Broker. Certain fees payable to Bahrain Clear may apply. For the avoidance of doubt, this is not a requirement for accepting the Offer.

9.1.6 At the time of submission of a completed Acceptance and Transfer Form, the Receiving Agent or the Participating Branches shall verify the validity of all copies of each participating BisB Shareholder's identification documents along with the submitted Acceptance and Transfer Form.

## 9. ACTION TO BE TAKEN BY BISB SHAREHOLDERS (continued)

- 9.1.7 BisB Shareholders intending to accept the Offer and who hold BisB Shares that are mortgaged will have to provide original written clearance from the mortgagee in a form acceptable to the Offeror, the CSD or the Receiving Agent.
- 9.1.8 The following important directions should be followed when completing the Acceptance and Transfer Form:
- a) only the prescribed Acceptance and Transfer Form received by mail or collected from the participating desk of the Receiving Agent, the Participating Branches or Participating Brokers listed in section IV (9.1.12) below should be used, and completed in full in accordance with the instructions contained therein. In the case of joint owners of BisB Shares only one Acceptance and Transfer Form may be used and signed by all such joint owners; and
  - b) in the case of any BisB Shares held by investment managers, the Acceptance and Transfer Form should be signed by the investment manager and sent along with a copy of the document reflecting the investment manager's position as the investment manager for the BisB Shareholder. The Acceptance and Transfer Form must state the beneficial owners of the BisB Shares and be provided together with their specific signed mandate.
- 9.1.9 The Offeror and the Receiving Agent reserve the right to reject any Acceptances and Transfer Forms if:
- a) the Acceptance and Transfer Form is not completed in all respects or is completed with incorrect information;
  - b) any of the information stated in section IV (9.1.1 to 9.1.8(b)) above is not included in or with the Acceptance and Transfer Form; or
  - c) the Acceptance and Transfer Form along with all of the above documents is received by the Receiving Agent after the close of business on the Final Closing Date.
- 9.1.10 The Offeror and the Receiving Agent reserves the right to accept, at its sole discretion, duly completed Acceptance and Transfer Forms where the information set out in section IV (9.1.1 to 9.1.8(b)) above has not been provided in its entirety but sufficient information and documentation has been provided or otherwise procured to comply with all applicable laws and regulations associated with know your client and anti-money laundering requirements and other laws and regulations applicable to the Offeror and the Offer have been complied with.
- 9.1.11 The BisB Shareholder shall:
- a) consent to the passing on of any information about the BisB Shareholder to any relevant regulatory authorities by the Receiving Agent, the Registrar, the Offeror or the Offeree (as the case may be) or their delegates and any onward transmission by those regulatory authorities of such information;
  - b) acknowledge that due to money laundering requirements operating within Bahrain, the Receiving Agent, the Offeror or the Offeree (as the case may be) may require identification of the BisB Shareholder(s) and source of funds before the Acceptance and Transfer Forms can be processed;
  - c) hold the Receiving Agent, the Offeror or the Offeree (as the case may be) harmless and indemnified and shall keep them held harmless and indemnified against any loss arising from the failure to process the Acceptance and Transfer Form, if information as has been required from the BisB Shareholder has not been provided within the allotted time to the satisfaction of the party requesting such information;
  - d) understand and agree that any funds or shares to be paid or transferred to the BisB Shareholder may be retained pending the completion of any verification of identity required by the Receiving Agent, the Offeror or the Offeree (as the case may be); and
  - e) accept the terms of the privacy notice at Schedule 1 of the Offer Document and consent to the use and sharing of the BisB Shareholder's personal data including sensitivity personal data in accordance with such privacy notice.

## 9. ACTION TO BE TAKEN BY BISB SHAREHOLDERS (continued)

### 9.1.12 The Receiving Agent and the Participating Branches

The Receiving Agent and the Participating Branches as set out below will receive the completed Acceptance and Transfer Forms together with the information stated in sections 9.1.1 to 9.1.8(b) (as applicable) above:

No.	Branch Name	Address	Telephone Number(s)	Opening Days	Morning Hours	Evening Hours
1	SICO B.S.C.(c) Receiving Desk at Bahrain Bourse	4 <sup>th</sup> Floor, Harbour Gate, Bahrain Financial Harbour, Manama, Kingdom of Bahrain	(973) 17 51 5022	Sunday to Thursday	9:00 am-1:00 pm	
2	BisB - Head Office	Road 1708, Block 317, Building 722, Al Salam Tower, Kingdom of Bahrain	(973) 17 51 5151	Sunday to Thursday	8:00 am-4:00 pm	
3	BisB - Budaiya Financial Mall	Building 423, Road 7317, Abu Sayba 473, Northern Governorate, Kingdom of Bahrain	(973) 17 51 5151	Sunday, Tuesday, Thursday	8:00 am-3:00 pm	
				Monday, Wednesday	8:00 am-1:00 pm	3:00 pm-5:00 pm
4	BisB - Hamad Town Financial Mall	Building 1247, Road 317, Block 1203, Hamad Town, Kingdom of Bahrain	(973) 17 51 5151	Sunday, Tuesday	8:00 am-1:00 pm	3:00 pm-5:00 pm
				Monday, Wednesday, Saturday	8:00 am-3:00 pm	
5	BisB - Arad Financial Mall	Commercial Building 1294, Road 4037, Arad 0240, Muharraq Governorate, Kingdom of Bahrain	(973) 17 51 5151	Sunday, Tuesday	8:00 am-1:00 pm	3:00 am-5:00 pm
				Monday, Wednesday Saturday	8:00 am-3:00 pm	
6	BisB - Riffa Financial Mall	Building 10, Abu Shahin Avenue, Block 921, Bukowarah, Riffa, Kingdom of Bahrain	(973) 17 51 5151	Sunday, Tuesday, Thursday	8:00 am-3:00 pm	
				Monday, Wednesday	8:00 am-1:00 pm	3:00 pm-5:00 pm
7	NBB - Main Branch	Bldg. 120 Government Road, Block 316, Manama, Kingdom of Bahrain	(973) 17 22 8800	Sunday to Thursday	7:30 am-2:00 pm	
8	NBB - Tubli Branch	Shop No. 1, Bldg No. 242, Road No. 73, Block No. 373, Bughazal - Manama, Kingdom of Bahrain	(973) 17 14 2222	Sunday, Tuesday, Wednesday	7:30 am-2:00 pm	
				Saturday to Monday	7:30 am-1:00 pm	4:00 pm-6:30 pm
9	NBB - Seef Mall Branch	Bldg 2102, Road 2825, Block 428, Seef District, Kingdom of Bahrain	(973) 17 58 2666	Saturday to Thursday	10:00 am-8:00 pm	
10	NBB - Atrium Mall Branch	The Atrium Mall & Towers, Ground floor, Unit GF09 & GF10, Building 1224, Road 2719, Saar 527, Kingdom of Bahrain	(973) 17 69 8899	Sunday to Thursday	9:00 am-5:00 pm	
11	NBB - Al Istiqlal Highway Branch	Shop 2422-Z, Sanad Shopping Centre, Al-Istiqlal Avenue, Road 4571, Block 745, Kingdom of Bahrain	(973) 17 62 2611	Sunday, Tuesday, Wednesday	7:30 am-2:00 pm	
				Monday & Thursday	7:30 am-1:00 pm	4:00 pm-6:30 pm

## **9. ACTION TO BE TAKEN BY BISB SHAREHOLDERS (continued)**

9.1.13 Once all the Conditions Precedent have been fulfilled or waived by NBB and the Offer becomes unconditional, during or at the end of the Offer Period, NBB will arrange to make an announcement to this effect in two newspapers in the Kingdom of Bahrain and the websites of the BHB, BisB and NBB. BisB Shareholders, who did not submit their Acceptance and Transfer Form prior to the announcement of the Offer becoming unconditional, will then be eligible to submit their Acceptance and Transfer Form for a further fifteen (15) day period from the date of such announcement.

9.1.14 Any queries regarding the application procedure should be directed to the Receiving Agent or the Participating Branches at the details outlined above.

## **10. SUSPENSION OF TRADING**

Trading in BisB shares will be suspended one business day before the Opening Day, until the cash settlement is paid to the BisB Shareholders accepting the cash swap offer and NBB share settlement is completed with the BisB Shareholders accepting the share swap offer, or when the Offer is revoked due to non-fulfilment of the conditions precedent.

## V. LETTER TO THE BISB SHAREHOLDERS FROM THE INDEPENDENT COMMITTEE

### **BAHRAIN ISLAMIC BANK B.S.C.**

(Incorporated in the Kingdom of Bahrain with Commercial Registration No.: 9900)

#### **Registered Office:**

P. O. Box 5240, Al Salam Building,  
Diplomatic Area, Manama,  
Kingdom of Bahrain  
12 December 2019

**To,**

#### **The Shareholders of Bahrain Islamic Bank B.S.C.**

Dear Sir/Madam,

**VOLUNTARY CONDITIONAL OFFER TO ACQUIRE UP TO 100% OF THE ISSUED AND PAID UP ORDINARY SHARES OF BAHRAIN ISLAMIC BANK B.S.C. SUBJECT TO A MINIMUM ACQUISITION OF 40.94% OF THE ISSUED SHARE CAPITAL OF BAHRAIN ISLAMIC BANK B.S.C., BRINGING NATIONAL BANK OF BAHRAIN B.S.C.'S TOTAL STAKE IN BAHRAIN ISLAMIC BANK B.S.C. TO A MINIMUM OF 70% FOR EITHER CASH OR SHARES EXCHANGE AT THE OPTION OF EACH SHAREHOLDER OF BAHRAIN ISLAMIC BANK B.S.C.**

#### **INTRODUCTION**

We refer to the Circular dated 12 December 2019 issued by BisB, of which this letter forms part. Capitalized terms used herein shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed as the members of the Independent Committee of the Board of Directors of BisB to advise the Shareholders as to whether the Offer is, or is not, fair and reasonable and to recommend whether to accept or reject the Offer. Gulf International Bank B.S.C. has been appointed as the Professional Independent Adviser to provide us with their opinion on the fairness and reasonableness of the Offer. We have taken into consideration the fairness opinion issued by the Professional Independent Adviser as provided in section VI of the Circular and the detailed report prepared by the Professional Independent Adviser in making our recommendations herein.

#### **RECOMMENDATION**

Taking into consideration NBB's statements made in the Offer Document and relying solely on the contents of the Adviser's Opinion, the Independent Committee's assessment is that the NBB Offer is **FAIR** and **REASONABLE** in accordance with the facts available at the time of review. Accordingly, the Independent Committee unanimously recommends that the BisB Shareholders **ACCEPT** the NBB Offer to acquire the BisB Shares at the cash price of BHD 0.117 per share.





**V. LETTER TO THE BISB SHAREHOLDERS FROM THE INDEPENDENT COMMITTEE** (continued)

On the basis that the Shari'a Supervisory Board of BisB has specifically prohibited the share swap offer made by NBB, the Independent Committee is **NOT** making any recommendations in relation to the proposed share swap offer made by NBB.

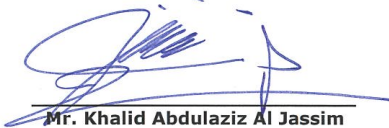
As required by the TMA, the above recommendations are the views of the Independent Committee and not of the entire Board (given that all other Directors of BisB have conflicts of interest and have recused themselves from all discussions and decisions made in relation to the Offer).

**BisB Shareholders are advised to read the Adviser's Opinion as set out in section VI of the Circular, the Offer Document and the terms of the Offer as set out therein carefully and in their entirety before accepting or rejecting the NBB Offer. In case of any doubt, BisB Shareholders are also advised to seek independent professional advice, as deemed appropriate, prior to making any decision.**

Yours faithfully,



**Mr. Mohamed Abdulla Nooruddin**  
Chairman



**Mr. Khalid Abdulaziz Al Jassim**



**Mr. Marwan Khaled Tabbara**

## IV. FAIRNESS OPINION OF THE PROFESSIONAL INDEPENDENT ADVISER



Gulf International Bank B.S.C.

### FAIRNESS OPINION

4 December 2019

The Board Independent Committee  
Bahrain Islamic Bank B.S.C.  
Road 1708, Block 317  
Building 722, Al Salam Tower  
Diplomatic Area  
Kingdom of Bahrain

Dear Sirs,

This fairness opinion has been prepared in relation to National Bank of Bahrain B.S.C.'s ("NBB") voluntary conditional offer to acquire up to 100% of the issued and paid up ordinary shares of Bahrain Islamic Bank ("BisB" or the "Bank") subject to a minimum acquisition of 40.94% of the issued share capital of BisB (the "Offer"), bringing NBB's total stake in BisB to a minimum of 70% for either cash of BHD 0.117 per BisB share (the "Cash Price Offer") or shares exchange at a share exchange ratio of 0.167 ("Conversion Ratio") new NBB shares per BisB share (the "Share Exchange Offer") at the option of each shareholder of BisB. This information has been communicated by NBB to the shareholders of BisB through an offer document (the "Offer Document") dated 24 November 2019 (the "Offer Date").

Pursuant to the above, you have requested an opinion from Gulf International Bank B.S.C. ("GIB") in its capacity as professional independent financial adviser to BisB under the terms of an engagement letter dated 25 September 2019 (the "Engagement Letter") as to the fairness, from a financial point of view, of the Cash Price Offer and the Share Exchange Offer to BisB's shareholders, and as to GIB's advice to the Independent Committee to make their recommendation to BisB's shareholders on the acceptance of the Offer.

Please note that while some terms and conditions of the Offer have been summarized, the terms of the Offer are fully described in the Offer Document. Accordingly, the description of the Offer and some other information contained in this letter is subject to reference to the Offer Document and to BisB's board circular published in response to the Offer Document (the "Circular"). The terms that are not defined in this letter bear the meanings specified in the Circular and the Offer Document.

Scope of our review:

- Review the financial terms of the Offer
- Review of the Circular and the Offer Document

#### IV. FAIRNESS OPINION OF THE PROFESSIONAL INDEPENDENT ADVISER (continued)



Gulf International Bank B.S.C.

- Review of the annual financials for the Bank for the years ended 31 December 2016, 2017, 2018 and the interim financial statements for the nine-month period ended 30<sup>th</sup> September 2019
- Review of the business plan, business strategy, and forecasts of business, profits, cash flows, assets, liabilities and future prospects of the Bank, prepared and provided by BisB
  - We have also held discussions with members of the senior management of BisB regarding their assessment of the past and current operations, financial condition and the future prospects of BisB
- Review of the market price and volumes of BisB's and NBB's ordinary shares traded on the Bahrain Bourse over a 52-week period prior to the publication of the Offer Document on the Offer Date.

For purposes of rendering this opinion, we have, with your consent, relied upon and assumed the accuracy and completeness of all of the financial, legal, regulatory, tax, accounting and other information provided to, discussed with or reviewed by us, without assuming any responsibility for independent verification thereof. We have assumed that all governmental, regulatory or other consents and approvals necessary for the completion of the Offer will be obtained without any adverse effect on BisB. We have also assumed that the Offer will be completed on the terms set forth in the Offer Document, without the waiver or modification of any term or condition the effect of which would be in any way meaningful to our analysis.

Our opinion does not address the underlying business decision of BisB's shareholders to accept the Offer, or the relative merits of the Offer as compared to any strategic alternatives that may be available to BisB's shareholders, nor does it address any legal, regulatory, tax or accounting matters. This opinion addresses only the fairness from a financial point of view to BisB's shareholders, as of the date hereof, of the Cash Price Offer and Share Exchange Offer pursuant to the Offer, and as to our advice to the Independent Committee to make their recommendation to BisB's shareholders on the acceptance of the Offer

We do not express any view on, and our opinion does not address, any other term or aspect of the Offer or any term or aspect of any other agreement or instrument contemplated by the Offer or entered into or amended in connection with the Offer, including, the fairness of the Offer to, or any consideration received in connection therewith by, the holders of any class of securities, creditors, or other constituencies of BisB; nor as to the fairness of the amount or nature of any compensation to be paid or payable to any of the officers, directors or employees of BisB, NBB, or any class of such persons in connection with the Offer, whether relative to the Cash Price Offer or the Share Exchange Offer pursuant to the Offer or otherwise.

We are not expressing any opinion as to the price at which the ordinary shares of BisB will trade at any time or as to the impact of the Offer on the regulatory capital position, solvency or viability of BisB or the ability of BisB to pay its respective obligations when they come due. Our advisory services and the opinion expressed herein are provided solely for the information and assistance of the Independent Committee in connection with its consideration of the Offer.

Please note that the scope of our review was completed on 3 December 2019 and there may be events, developments and changes in circumstances subsequent to this date which may render the basis of our opinion wholly or partly superseded by such events. We assume no responsibility for events occurring after this date, which

#### IV. FAIRNESS OPINION OF THE PROFESSIONAL INDEPENDENT ADVISER (continued)



Gulf International Bank B.S.C.

could affect this opinion and the assumptions that it is based upon. GIB assumes no responsibility for updating this opinion after this date.

GIB does not owe, nor accept, any duty of care other than to BisB's Independent Committee regarding any matter (other than the opinion in this letter) and shall not be liable to any party (other than BisB) for any loss, damage, claim, liability, cost or expense whatsoever which is caused by use of, or reliance on, the opinion herein or any matter.

##### Methodology and Valuation

The valuation methods used to establish a fair equity value per BisB ordinary share included the Justified Price-to-Book ratio and the discounted Residual Income methodology. The Justified Price-to-Book approach is based on a company's fundamentals and is calculated using the long-term return on equity, the required rate of return of equity, and the sustainable growth rate. A valuation range was developed based on the possible variances in the projected returns on equity and the required returns on equity. The Residual Income approach measures the projected returns on equity vs. the required returns on equity. GIB also considered the volume-weighted average trading price of BisB's shares over the 52-week period leading up to the Offer Date, and the trading multiples of banks listed on the Bahrain Bourse keeping in view BisB's projected business performance.

The valuation range per BisB ordinary share, based on GIB's findings, is BHD 0.076 to BHD 0.113.

The valuation methods used to establish a fair equity value per NBB ordinary share also included the Justified Price-to-Book ratio and the discounted Residual Income methodology. A valuation range was developed based on the possible variances in the projected returns on equity and the required returns on equity. GIB also considered the 52-week range within which NBB's shares traded on the Bahrain Bourse prior to the publication of the Offer Document, and the trading multiples of banks listed on the Bahrain Bourse.

The valuation range per NBB ordinary share, based on GIB's findings, is BHD 0.526 to BHD 0.795.

##### Opinion

Based upon and subject to the terms of this letter, and pursuant to Paragraph TMA-2.2.1 of the Takeovers, Mergers and Acquisitions Module, Volume 6 of the CBB Rulebook, it is our opinion that, as of the Offer Date; (a) the Cash Price Offer of BHD 0.117 per ordinary share of BisB; or (b) the Share Exchange Offer of 0.167 new ordinary shares in NBB per ordinary share of BisB, pursuant to the Offer is **FAIR** and **REASONABLE** from a financial point of view to BisB's shareholders, and based on our opinion, it is our advice to the Independent Committee that they recommend **ACCEPTANCE** of the Offer to BisB's shareholders.

Our fairness opinion must be considered in conjunction with our valuation report provided to the Independent Committee on 4 December 2019.

#### IV. FAIRNESS OPINION OF THE PROFESSIONAL INDEPENDENT ADVISER (continued)



Gulf International Bank B.S.C.

##### BisB's Relationship with GIB

We have worked as professional independent financial adviser to BisB only in relation to the Offer and expect to receive a fee from BisB for the services rendered. BisB has agreed to reimburse certain expenses arising, and indemnify us against certain liabilities that may arise, out of our engagement.

GIB and its subsidiaries have provided advisory and financial services and other services to BisB and have received fees for the performance of these services and may continue to provide these services to BisB and to receive fees for such services. In the ordinary course of its business, GIB and its subsidiaries may effectively trade in BisB's securities or NBB's securities offered to them for their own accounts or customer accounts, and may therefore have long positions or short sale in the securities mentioned at any time.

GIB does not accept or assume responsibility to anyone other than BisB as the addressee of its opinion. As BisB will appreciate, GIB's work has been undertaken and the work product has been issued, on the terms of the Engagement Letter. Consequently, this letter was not created for, and should not be treated as suitable for, any purpose other than that set out in this opinion and/or in its Engagement Letter.

For the avoidance of doubt, GIB shall not be liable in connection with this opinion for any incomplete or inaccurate information received from BisB or a third party, and GIB has assumed that the information provided is correct and will be relying on the information so provided without carrying out any independent verification.

Yours faithfully,

For and on behalf of **Gulf International Bank B.S.C.**

Name: **Udit N. Mishra**  
Title: **Senior Vice President**  
**A-013**

Name:  
Title: **Ahmed Hussain**  
**Senior Vice President**

## APPENDIX A – INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION

### 1. BUSINESS OVERVIEW

#### 1.1. Bahrain Islamic Bank B.S.C.

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

BisB operates under an Islamic Retail Bank license from the Central Bank of Bahrain and is listed on the BHB. Guided by Islamic principles, BisB has established itself as a pioneer of the Islamic industry and the leading provider of Shari'a compliant integrated financial solutions in Kingdom of Bahrain. Headquartered in Manama, BisB has 9 branches across Kingdom of Bahrain.

#### 1.2. Market Price of BisB

The VWAP for BisB shares up to six months prior to and including the Last Practicable Date is as follows:

VWAP Period	VWAP (BD Per Share)
1 month	0.120
2 months	0.121
3 months	0.121
4 months	0.121
6 months	0.121

The market price of BisB on certain key dates was given below:

Event	Event Date	Closing Price (BD Per Share)
Latest Practicable Date	1 December 2019	0.120
Issuance of Offer Document	24 <sup>th</sup> November 2019	0.120
Issuance of Firm Intention	31 <sup>st</sup> October 2019	0.122
Initial Announcement Date	21 <sup>st</sup> July 2019	0.120

There are no securities of BisB which are not listed on Bahrain Bourse.

The closing prices for the last trading day of the month for the period commencing 6 months prior to the commencement of the Offer and ending on the Latest Practicable Date prior to the posting of the Circular are as follows:

Date	Closing Price (BD Per Share)
June 2019	0.123
July 2019	0.122
August 2019	0.120
September 2019	0.122
October 2019	0.122
November 2019	0.120

## APPENDIX A – INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION (continued)

The highest and lowest closing prices during the period commencing 6 months prior to the commencement of the Offer and ending on the Latest Practicable Date prior to the posting of the Circular are as follows:

	Date	Closing Price (BD Per Share)
Highest closing price	25 August 2019	0.124
Lowest closing price	18 August 2019	0.115

### 2. MAJOR SHAREHOLDERS

Shareholder Name	% Ownership
National Bank of Bahrain	29.06
Social Insurance Organisation (Military Pension Fund)	14.53
Social Insurance Organisation (SIO)	14.53
Islamic Development Bank	14.42
General Council of Kuwaiti Awqaf	7.18

### 3. GROUP STRUCTURE

The following table depicts the subsidiaries and associated companies of BisB:

Legal Entity Name	Shareholding %	Country of Incorporation
Abaad Real Estate B.S.C. (c)	100%	Kingdom of Bahrain
Liquidity Management Center B.S.C. (c)	25%	Kingdom of Bahrain
Al Dur Investment Company	29.41%	Kingdom of Bahrain
Arabian C Real Estate	19%	State of Kuwait

### 4. DIRECTORS OF THE OFFEREE

The Directors of BisB are:

Name of Director	Title
Dr. Esam Abdulla Fakhro	Chairman
Mr. Brigadeir Ebrahim Abdulla Al-Mahmood	Vice Chairman
Mr. Khalid Yousif Abdul Rahman	Board Member
Mr. Muhammad Zarrug Rajab	Board Member
Mr. Mohammed Abdulla Al Jalahma	Board Member
Mr. Abdulla Ahmed Kamal	Board Member
Mr. Khalid Abdulaziz Al Jassim	Board Member
Mr. Marwan Khaled Tabbara	Board Member
Mr. Mohamed Abdulla Nooruddin	Board Member

The Independent Committee is comprised of the following non-conflicted Directors of BisB:

Name of Director	Title
Mr. Mohamed Abdulla Nooruddin	Board Member
Mr. Khalid Abdulaziz Al Jassim	Board Member
Mr. Marwan Khaled Tabbara	Board Member

**APPENDIX A -  
INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION (continued)****4. DIRECTORS OF THE OFFEREE (continued)**

A brief description of each Director is set out below.

**Dr. Esam Abdulla Fakhro**

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.

**Brigadeir Ebrahim Abdulla Al-Mahmood**

Brigadier Ebrahim Al-Mahmoud currently serves as CFO of Bahrain Defense 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 38 years.

**Mr. Khalid Yousif Abdul Rahman**

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 41 years of professional experience.

**Mr. Muhammad Zarrug Rajab**

Mr. 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 46 years' professional experience.

**Mr. Mohammed Abdulla Al Jalahma**

Mr. Mohammed Abdulla Al Jalahma is currently the Treasurer of the Kuwait Awqaf Pension Fund. He has been a board member on several government organizations in Kuwait. He was also a board member of Bangladesh Islamic Bank and Al Madar Finance and Investment Company. He holds a Bachelor's Degree in Business Management from the Concordia University.



## APPENDIX A - INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION (continued)

### 4. DIRECTORS OF THE OFFEREE (continued)

#### **Mr. Abdulla Ahmed Kamal**

Mr. Abdulla Ahmed Kamal is Head of Operations for Osool Asset Management B.S.C. (c) in Bahrain. He was formerly Head of Risk and Compliance at Ernst & Young Corporate Finance, responsible for the development of the company's risk and compliance framework. He has in-depth knowledge of Internal Audit functions and processes, and is a member of the Institute of Internal Auditors (IIA). He also holds membership of the Association of Chartered Accountants (ACCA). Mr. Kamal gained his Bachelor of Science Degree in Accounting from the University of Bahrain.

#### **Mr. Khalid Abdulaziz Al Jassim**

Mr. Khalid Al Jassim holds an Executive MBA from Pepperdine University, California. Prior to that, he obtained his under graduate degree from California State University, Long Beach, with double major in Computer Science and Mathematics. Moreover, Khalid attended several Executive Education programs in Stanford University, Harvard and London Business School. He is a serial entrepreneur and founder of several prominent companies regionally and internationally. Khalid sits on the board of numerous companies and recently has been appointed to serve on the board of Bahrain Islamic Bank as an independent director.

Khalid's professional career started with National Chemical Industries Corporation, a subsidiary of SABIC in Saudi Arabia as head of Marketing for three years. In 1998 Khalid joined Arcapita (formerly known as First Islamic Investment Bank). He was instrumental in forming the bank's vision, mission and strategy. His responsibilities ranged from establishing the placement team to handling the Information Technology and Administration departments. In his 15 years with the Bank, Khalid became a member of the Management Investment Committee, Management Administration Committee and head of placement MENA region. In 2013 Khalid left Arcapita Bank and formed several successful startups focused on real estate and venture capital. He formed Arkproventus, a real estate development and management company in Dubai and Afkar Holding, an investment holding, and advisory platform focused on financial technology, logistics and healthcare. He is currently on the board of several of these companies including Wahed Invest, the first Sharia'a compliant Robo advisory platform based out of New York.

#### **Mr. Marwan Khaled Tabbara**

Mr. Marwan Khaled Tabbara is a co-founder and Managing Partner of Stratum, a boutique advisory services firm based in the Kingdom of Bahrain. He also serves as a board member of Bahrain Bourse, Bahrain Development Bank, and Bahrain Flour Mills. Prior to Stratum, he worked in the Global Corporate & Investment Banking division of Citigroup in New York, London, and Bahrain, where he supported large private and public sector clients on transactions within the Middle East and internationally. Mr. Tabbara holds a Masters of Engineering Management and a Bachelors of Science in Electrical Engineering and Economics from Duke University in the United States of America.

#### **Mr. Mohamed Abdulla Nooruddin**

Mr. Mohamed Abdulla Nooruddin is the Chairman of Newbury Investments W.L.L., a private entity established in the Kingdom of Bahrain that provides financial and investment advisory services. He is also a Board member at Al Baraka Bank-Egypt and Tadhamon Capital. He is also an ex-board member of Ibdar Bank. In the past, Mr. Nooruddin has held several executive positions at Arcapita Bank, First Islamic Investment Bank, Bahrain International Bank and Gulf International Bank. He holds a BSc in Business Administration from the University of Bahrain.

## APPENDIX A - INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION (continued)

### 5. SHARE CAPITAL

#### 5.1 Capital structure

The share capital of BisB consists of 2 billion authorized shares of BHD 0.100 each. The issued and fully paid up capital of BisB consists of 1,064,058,587 shares as of 31 December 2018 of BHD 0.100 each.

#### 5.2 Paid-up share capital

At the Latest Practicable Date, BisB has one class of shares, comprising ordinary shares and the issued share capital of BisB is BHD 106,405,858/- comprising 1,064,058,587 shares of BHD 0.100 each. The BisB Shares are quoted and listed on the BHB and all the shares carry equal rights as to dividend, vote at shareholders' meetings and any other matter of shareholder concern, subject to 5.3 below.

#### 5.3 Number of shares issued since the end of the last financial year

On 20 January 2019, the Ministry of Industry, Commerce and Tourism registered a capital increase for BisB from BHD 101,338,913/- to BHD 106,405,858/- through issuance of 50,669,450 new shares.

#### 5.4 Outstanding instruments convertible into, rights to subscribe for an option in respect of, securities being offered for or which carry voting rights affecting the BisB Shares

##### Employee Share Scheme

5,769,782 BisB Shares are allocated to BisB employees under a Share Incentive Scheme and Deferred Cash Award Plan Rules representing 0.54% of the total outstanding BisB Shares and the said shares will not be available for acquisition as the same have not vested in favor of the employees.

##### Treasury Shares

BisB holds 5,855,358 shares as treasury shares representing 0.55% of the total outstanding BisB Shares and the said treasury shares will not be available for acquisition.

### 6. DISCLOSURE OF INTERESTS

#### 6.1 Appointment of Independent Committee

In accordance with the TMA rule 2.2.1, the Independent Committee was established on 22 September 2019 to discharge the responsibilities of the Board of BisB in relation to the NBB Offer. The Independent Committee consists of:

- 1) Mr. Mohamed Abdulla Nooruddin.
- 2) Mr. Khalid Abdulaziz Al Jassim; and
- 3) Mr. Marwan Khaled Tabbara;

The Directors who are not members of the Independent Committee have disclosed conflict of interest and have abstained from all discussions and decisions made in relation to the Offer.

#### 6.2 Shareholdings

##### 6.2.1 Interests of BisB in the shares of NBB

BisB does not have any direct or deemed interest in the shares or securities of NBB or instruments convertible into or rights to subscribe for or options in respect of shares or securities which carry voting rights of NBB as at the Latest Practicable Date.

##### 6.2.2 Dealing in shares of NBB by BisB

BisB has not dealt for value in the shares of NBB during the six months prior to the Offer Period.

## APPENDIX A – INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION (continued)

### 6. DISCLOSURE OF INTERESTS (continued)

#### 6.2 Shareholdings (continued)

##### 6.2.3 Interests of Directors in Shares

No members of the Independent Committee have any direct or deemed interest in the BisB Shares as at the Latest Practicable Date.

The following Directors of BisB have direct or deemed interest in the BisB Shares as at the Latest Practicable Date:

Name of Director	Number of Shares currently owned or controlled	% of Shares
Dr. Essam Abdulla Fakhro	352,500 personally and 861,250 through Kingdom Investments S.P.C.	0.03% personally and 0.08% through Kingdom Investments S.P.C.
Khalid Yousif Abdul Rahman	536,020 through Yusuf A.Rahman Engineer (Holding) Co. W.L.L.	0.05% through Yusuf A.Rahman Engineer (Holding) Co. W.L.L.

As disclosed in the NBB Offer, the following directors of NBB have direct or deemed interest in the BisB Shares as at the Latest Practicable Date:

Name of Shareholder	Number of Shares	Relevant NBB Director
National Bank of Bahrain	309,206,266	N/A
Social Insurance Organisation (Pension) – Military	154,604,587	Sh. Rashed Al Khalifa
Social Insurance Organisation (GOSI)	154,484,011	Sh. Rashed Al Khalifa
Bahrain Liquidity Fund	3,394,042	Sh. Rashed Al Khalifa, Khalid Al Romaihi, Dr. Essam Abdulla Fakhro, Mohammed Tareq Mohammed Sadeq Mohamed Akbar and Husain Sultan Sultan AlGhanem
Family Investment Company Ltd.	1,856,676	Fawzi Ahmed Kanoo
Bahrain Car Parks Company B.S.C.	1,219,644	Sh. Rashed Al Khalifa
Kingdom Investments S.P.C.	861,250	Dr. Essam Abdulla Fakhro
A.M. Yateem Bros. W.L.L.	852,270	Hala Ali Husain Yateem
Ali Hussain Yateem Holding Co. W.L.L.	812,953	Hala Ali Husain Yateem
Yusuf A.Rahman Engineer (Holding) Co. W.L.L.	536,020	Khalid Yousif Abdul Rahman
Y.K. Almoayyed & Sons Properties Co. W.L.L.	455,719	Farouk Yousif Khalil Almoayyed
United Insurance Company B.S.C.	407,969	Farouk Yousif Khalil Almoayyed and Fawzi Ahmed Kanoo are shareholders of this company
Dr Essam Abdulla Fakhro	352,500	Dr. Essam Abdulla Fakhro
Social Insurance Organisation (Pension) – Civil	120,574	Sh. Rashed Al Khalifa
Farooq Yusuf Khalil Almoayyed	38,749	Farouk Yousif Khalil Almoayyed
Bahrain Charity Society	34,107	Fawzi Ahmed Kanoo

## APPENDIX A - INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION (continued)

### 6. DISCLOSURE OF INTERESTS (continued)

#### 6.2 Shareholdings (continued)

##### 6.2.4 Dealings in Shares by NBB Directors

Dr. Essam Abdulla Fakhro, Chairman BisB and Vice Chairman of NBB acquired 300,000 shares at BD 0.120 per share amounting to BD 36,000, representing 0.03% of the issued shares, of BisB on 4 July 2019.

##### 6.2.5 Interests of the Board of Directors in the Shares of NBB

No members of the Board of Directors have any direct or deemed interest in shares or convertible securities of NBB.

##### 6.2.6 Dealings in Shares of NBB by the Board of Directors

No members of the Board of Directors have dealt for value in the shares of NBB during the six months prior to the Offer Period.

##### 6.2.7 Interests of the Adviser

GIB neither:

- a) owns or controls any shares in BisB; nor
- b) manages any shares of BisB through investments in funds on a discretionary basis.

##### 6.2.8 Dealings by the Adviser

GIB has not dealt in shares of BisB or NBB in the six months prior to the Offer Period.

#### 6.3 BISB Directors' Intentions

No members of the Independent Committee have any direct or deemed interest in the BisB Shares as at the Latest Practicable Date.

As per 6.2.3 above, the following directors of BisB hold, directly or indirectly, BisB shares:

Name of Director	Number of Shares currently owned or controlled	% of Shares
Dr. Essam Abdulla Fakhro	352,500 personally and 861,250 through Kingdom Investments S.P.C.	0.03% personally and 0.08% through Kingdom Investments S.P.C.
Khalid Yousif Abdul Rahman	536,020 through Yusuf A.Rahman Engineer (Holding) Co. W.L.L.	0.05% through Yusuf A.Rahman Engineer (Holding) Co. W.L.L.

The above Directors of BisB intend to **NOT ACCEPT** the NBB Offer and maintain their shareholding in BisB.

## APPENDIX A - INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION (continued)

### 6. DISCLOSURE OF INTERESTS (continued)

#### 6.4 Financial Disclosures

Details of last three years audited financials statements are as follows:

	2018	2017	2016
<b>Earnings (BHD thousands)</b>			
Net profit income	33,866	32,901	30,621
Other income	11,665	10,005	11,051
Gross income (Turnover)	45,531	42,906	41,672
Operating expenses	25,255	26,568	23,520
Profit for the year	11,381	10,141	8,420
Cash dividend	-	-	5,051
Stock dividend	-	5,066	-
<b>Financial Position (BHD thousands)</b>			
Total assets	1,279,394	1,228,647	1,022,007
Islamic financing	765,824	740,702	666,826
Investment securities	240,053	258,399	145,731
Earning assets	1,175,944	1,119,119	907,122
Total deposits	1,137,620	1,094,870	890,656
Customer deposits	926,490	925,422	786,782
Shareholders' equity	117,749	122,270	116,472
<b>Ratios (%)</b>			
Return on average equity	9.48%	8.50%	7.45%
Return on average assets	0.91%	0.90%	0.83%
Earnings per share (fils)	10.83	9.65	8.41
Cost to income ratio	55.47%	61.92%	56.44%
Earnings per employee (BD thousands)	31	28	23
<b>Capital</b>			
Shareholders' equity to total assets	9.2%	10.0%	11.4%
Total liabilities to shareholders' equity (times)	9.9	9.0	7.8
Capital adequacy (%)	17.1%	19.4%	20.3%

**6.4.1** The complete set of consolidated audited financial statements for the year ended 31 December 2016 is provided in Appendix C of this Circular.

**6.4.2** The complete set of consolidated audited financial statements for the year ended 31 December 2017 is provided in Appendix D of this Circular.

**6.4.3** The complete set of consolidated audited financial statements for the year ended 31 December 2018 is provided in Appendix E of this Circular.

**6.4.4** The interim condensed audited financial statements for the year ended 30 September 2019 are provided in Appendix F of this Circular.

## APPENDIX A - INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION (continued)

### 6. DISCLOSURE OF INTERESTS (continued)

#### 6.5 Other Disclosures

##### Directors' Service Agreements

Pursuant to HC-1.2.9 of the CBB Rulebook Volume 2 applicable to Islamic banks, BisB executed a formal directorship agreement dated 21 March 2019 with each of the directors appointed by the shareholders at the last Annual General Meeting held on 21 March 2019.

### 7. MANAGEMENT

A brief description of the management of BisB is furnished below:

#### **Mr. Hassan 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 joining Bahrain Islamic Bank on July 1, 2015 as Chief Executive Officer, Mr. Jarrar held the position of Chief Executive Officer of Standard Chartered Bank, Bahrain. Mr. Jarrar's diverse career in Banking includes extensive experience in retail, SME, and Corporate Banking in the Middle East and the US. Mr. Jarrar holds a BSc in Finance from California State University, San Jose.

#### **Mr. Fahim 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 and the UK. Prior to joining BisB, Mr. Ahmed held the position of Chief Risk Officer at Standard Chartered Bank Bahrain. He holds a Diploma in Islamic Finance (CDIF) and an MBA from the University of Warwick, UK.

#### **Mr. Wesam Baqer – Chief Corporate & Institutional Banking**

Mr. Wesam Baqer is an experienced Banking professional with a diverse career in Corporate Banking, Private Banking, and Business Development. Mr. Baqer joined BisB in 2008 as Head of the Corporate Banking. Previously, he held the same position at National Bank of Kuwait. Mr. Baqer completed an Executive Management Leadership Diploma from Darden Graduate School of Business, University of Virginia, in the US. He also holds an MSc (Economics) in Finance and Investment Management from the University of Aberdeen, Scotland, and a BS in Business Administration from the University of Bahrain.

#### **Mr. Dawood Al Ashhab – Chief Shared Services Officer**

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

#### **Mr. Mazar Rashid Mohammed Jalal – Chief Compliance & Governance**

Mazar Rashid Mohammed Jalal has over 18 years of experience in the financial services industry, covering Asset Management, Risk Management, Corporate Governance and Compliance. Prior to joining BisB, he was Head of Compliance at Kuwait Finance House, Bahrain. He holds a BSc in Accounting from the University of Bahrain, and a Diploma in Islamic Banking and Insurance from the Institute of Islamic Banking and Insurance, UK and Wales, with which he also has an Associate Fellowship. In 2014, he acquired the International Diploma in Compliance.

## APPENDIX A – INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION (continued)

### 7. MANAGEMENT (continued)

#### **Mrs. Maisa Shunnar – Chief Strategy Implementation & Transformation**

Mrs. Maisa Shunnar is a qualified, trained and seasoned professional with over 17 years of experience having worked in international markets across the USA and 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. With a BSc in Business Administration majoring in Computer Information Systems from the University of Houston, US, Mrs. Shunnar is a certified and accredited trainer for the United Nations on Business Process Re-engineering. She also holds a Master's degree in Business Communication and Leadership from Jones International University, US.

#### **Mr. Hussain Al Banna – Head of Treasury**

Mr. Hussain Al Banna is a banking professional with more than 14 years of conventional and Islamic banking experience in various capacities. 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 BS in Banking and Finance from the University of Bahrain and has successfully completed a diploma in Treasury and Capital Markets from Bahrain Institute of Banking and Finance (BIBF).

#### **Mr. Osama Nasr – Chief Information Officer**

Mr. Osama Nasr has over 20 years of experience in Information Technology (IT) and is currently the Head of Information Technology in BisB. Prior to joining BisB in 2007 as Head of Application Services in the IT department, Mr. Osama has held various key positions in a number of specialized companies abroad. Mr. Osama Nasr holds a Master's degree in Information System Management from the University of Liverpool in the United Kingdom.

#### **Mr. Ameer A. Ghani Dairi – Chief Financial Officer**

Mr. Ameer A. Ghani Dairi has over 18 years of experience in financial management and a broad commercial banking background in Bahrain. He joined BisB in 2007 and currently holds the position of Chief Financial Officer at BisB. Mr. Dairi holds a BSc in Accounting from the University of Bahrain and is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy, and a Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountants, US.

#### **Mrs. Dalal Al Qais – Chief Retail Banking**

Mrs. Dalal Al Qais is the first Bahraini woman to hold a GM position at BisB with over 15 years of extensive financial and banking experience. Prior to joining BisB in October 2017 as the first Bahraini woman 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. Ms. Al Qais holds a BSc in Management and Marketing from the University of Bahrain and an MSc in Finance.

#### **Mr. Mahmood Qannati – Chief Corporate Communications & Marketing Officer**

With over 18 years of extensive experience in Marketing, Communications and Branding on both a local and regional level, Mahmood Qannati is a veteran of the communications industry; having worked across various sectors including banking, telecommunications, automotive and aviation. During his time in the United Arab Emirates, Mr. Qannati worked in prominent and established institutions, leading Standard Chartered Bank as the Regional Head of Marketing & Branding for the entire Middle East, Africa and Pakistan region, as well as serving as the Middle East Chief Marketing Officer at Cigna Insurance, UAE. Mr. Qannati holds a Master's degree in Marketing Information Systems from the University of Sunderland and a Bachelor's degree in Marketing from the University of Bahrain.

#### **Mrs. Eman Ali Abdulla – Head of Central Operations**

Ms. Eman Ali Abdulla Ebrahim has more than 20 years of experience in Banking Operations, including front and back office coordination for Trade Finance, Treasury and Islamic Finance. She is well-versed in conventional and Islamic banking operations, as well as banking products and services support.

## **APPENDIX A - INFORMATION ABOUT THE OFFEREE AND OTHER STATUTORY INFORMATION (continued)**

### **7. MANAGEMENT (continued)**

#### **Mr. Khalid Waheeb Alnaser – Chief Internal Audit**

Mr. Khaled Waheeb Alnaser has over 10 years' experience in the fields of external audit, financial reporting and control, internal control, and internal audit. Prior to joining BisB in 2014 he worked in EY as an external auditor with focus on Islamic financial institutions. He is a Certified Public Accountant (CPA) from New Hampshire Board of Accountancy, Certified Internal Auditor (CIA) from the Institute of Internal Auditors (IIA), Certified Islamic Professional Accountant (CIPA) from Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and a Chartered Global Management Accountant (CGMA). Mr. Alnaser also completed a Leadership Development Program from Darden School of Business, University of Virginia, in the US.

The detailed profiles of the above management personnel can be found at <https://www.bisb.com/>

### **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the BisB at Al Salam Tower, 6<sup>th</sup> Floor, Manama, Kingdom of Bahrain during normal office hours for the period for which the Offer remains open for acceptance:

- a) Memorandum and Articles of Association of BisB, as amended from time to time;
- b) The annual reports of BisB for the financial years 2016, 2017 and 2018;
- c) Interim quarterly financial statements for first, second and third quarter ended for 2019;
- d) The Offer Document;
- e) This Circular;
- f) BisB Shariah Supervisory Board Fatwa;
- g) Written consent of the Professional Independent Adviser to share the Professional Independent Adviser's Opinion;
- h) Professional Independent Adviser's Opinion along with the redacted version of the valuation report; and
- i) Any document evidencing an irrevocable commitment or letter of intent which has been procured by the Offeror or Offeree company (as appropriate) or any of their associates.

The contents of this Circular and Offer Document will be also be available on the website of BisB - <https://www.bisb.com/> and BHB's website - <https://www.bahrainbourse.com>

Alternatively, any BisB shareholder who wishes to receive electronic copies of the Circular and Offer Document may email Ms. Nada Ishaq Abdul Karim, Board Secretary, at [nada.ishaq@bisb.com](mailto:nada.ishaq@bisb.com).



## APPENDIX B - BISB SHARI'A SUPERVISORY BOARD'S FATWA IN RELATION TO NBB ACQUIRING THE SHARES OF BISB

Date: 17 October 2019

### FATWA ON NBB'S OWNERSHIP TO BISB'S SHARES

In the name of Allah, with all praise due to Him, and with prayers and peace be upon Prophet Mohammed, his successors and companions, this is to declare the following:

The Sharia Supervisory Board at Bahrain Islamic Bank, would like to announce to the shareholders and customers, the Sharia Board's opinion, pertaining to NBB's ownership of BisB's shares, which is clarified as follows:

#### FIRST: The Ownership of Shares by a Conventional Bank

The Board reiterates - in principle - the absence of any Sharia'a based reason that may prevent the takeover or acquisition of an Islamic bank by a conventional bank, even if the ownership of shares has reached 100%. This is based on the fact that a non-legitimate gain should not prevent a legitimate one, as the legitimate gain is required under the Sharia'a rules.

The following conditions are stipulated to justify a take-over or acquisition of an Islamic bank by a conventional bank:

- 1- The Islamic Bank should maintain a separate identity, license, financial liability and budget from that of the conventional bank.
- 2- A complete and clear separation between the funds and transactions of both banks is to be ensured.
- 3- BisB's contracts, products and processes should remain to be operated under the Islamic finance system in accordance with the Sharia'a and Accounting standards issued by the Auditing Organization for Islamic Financial Institutions ("AAOIFI"), which are deemed mandatory, and as interpreted by the Shari'a Supervisory Board of the Bank.
- 4- BisB's Islamic structuring is to remain in its' current status, in accordance with the control and governance standards issued by the AAOIFI.

#### SECOND: THE SHARES OF BisB's SHAREHOLDERS

The shareholders may approve to sell their shares to a conventional bank only against cash offer, while it is not allowed from sharia'a perspective to offer any shares in a conventional bank in return of their shares, whether voluntary or compulsory. Allah remains the source of knowledge.

May Peace and Prayers be upon Prophet Mohammed, his successors and companions.



**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 AUDITED FINANCIAL STATEMENTS**

**APPENDIX C -**  
**CONSOLIDATED AUDITED FINANCIAL STATEMENTS**  
For The Year Ended 31 December 2016

**BAHRAIN ISLAMIC BANK B.S.C.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2016**

**Commercial registration** : 9900 (registered with Central Bank of Bahrain as a retail Islamic bank)

**Board of directors** : Dr. Esam Abdulla Fakhro, *Chairman*  
Brig. Khalid Mohammed Al Mannai, *Vice Chairman*  
Talal Ali Al Zain  
Khalil Ebrahim Nooruddin  
Mohammed Ahmed Al Khaja  
Khalid Yousif Abdulrahman  
Ebrahim Husain Ebrahim Aljassmi  
Othman Ebrahim Naser Al Askar  
Muhammad Zarrug Rajab

**Office** : Salam Tower, Diplomatic Area  
PO Box 5240  
Manama, Kingdom of Bahrain  
Telephone 17 546-111, Telefax 17 535-808

**Auditors** : KPMG Fakhro

## Board of Directors Report

### CHAIRMAN'S STATEMENT

**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 2016. The five-year plan for the Bank is now in its third year, and we have added the Ishraq five pillars of performance to our Back to Basics strategy, reorganizing our financial position; streamlining and optimizing processes; focusing on digitization; investing in people and talents; and differentiating through superior customer service. The growing impact of these initiatives is being reflected in positive improvements in all areas of BisB.**

**In an increasingly competitive local banking market and uncertain global economic environment, stable earnings resulted in revenues of BD 41.7 million and net profit for the year of BD 8.4 million. Earnings per share were 8.41 fils compared with 13.36 fils in 2015.**

**Balance sheet footings grew to BD 1,042 million with owners' equity of BD 116 million. Liquid assets remained strong at BD 90.7 million. The Bank has maintained its conservative approach to impairment provisioning by providing BD 9.7 million in 2016 versus BD 9 million in the previous year.**

**The retail and corporate banking businesses performed well, growing their financing portfolio by 12.1% and 12.3 % respectively. The emphasis on customer service underpins much of that success, with a newly-formed dedicated unit for service quality assurance and real time response to customer issues.**

**In consonance with our desire to maintain the highest measure of prudent risk management within the Bank, we have strengthened further the quality of our risk management processes as well as our corporate governance framework. Training and development of our people at all levels of personnel, coupled with enhanced cutting edge technology systems, heightens our capability to deliver the best possible customer experience.**

**The Board would like to place on record its grateful thanks both to my predecessor as Chairman, Abdul Razaq Al Qassim, who retired from the Board in March 2016, and also to Fatima Abdulla Budhaish, for their valuable contributions during their tenure as Directors of BisB. We welcome Khaled Yusuf AbdulRahman as incoming Director. The new Board will endeavour to continue the solid progress already achieved.**

**Despite the economic difficulties in the region, the Kingdom of Bahrain remains an attractive destination for corporate and financial businesses. However, 2017 will not be without its challenges. Lingering uncertainty over the price of oil, and the attendant pressures on liquidity, is expected to continue upward pressure on banks' cost of funds. The immediacy of civil conflict in the region, and an international economic malaise, all give cause for caution. However, with the strong platform of a focused business strategy and a dedicated management team, we are optimistic about the direction of the Bank.**

**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, and to all Government ministries and authorities – especially the Central Bank of Bahrain and the Ministry of Industry, Commerce & Tourism, for their constant guidance, kind consideration and support.**

**The Directors' appreciation of the advice and supervision of BisB's Sharia'a Supervisory Board is also acknowledged, as is the unstinting dedication and service from the management and staff of the Bank, whose commitment contributes so much to the health of the organization. To our business partners and loyal customers, we thank each and every one for their continuous invaluable support and confidence in Bahrain Islamic Bank.**



**Dr. Esam Abdulla Fakhro  
Chairman of the Board**

**12 February 2017**

**Sharia'a Supervisory Board report  
for the year ended on 31/12/2016**

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

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


Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

The Sharia'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Sharia perspective for the financial year ending on 31<sup>st</sup> December 2016, 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 2016 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 14 reports submitted by Internal Sharia Audit Department to the Sharia'a Supervisory Board included results of auditing the files, contracts, executed deals

  
Shaikh Dr. A.Latif Mahmood Al Mahmood  
Chairman

  
Shaikh Mohammed Jafar Al Juffairi  
Vice Chairman

  
Shaikh Adnan Abdullah Al Qattan  
Member

  
Shaikh Dr. Nedham M. Saleh Yacoubi  
Member

  
Shaikh Dr. Essam Khalaf Al Onazi  
Member

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

- The Sharia Board and its Committees held (14) meetings during the year and issued (73) decisions and fatwas, and approved (58) contracts.
- The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2016, 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. Nedim M. Saleh Yacoubi  
Member

Shaikh Dr. Essam Khalaf Al Onazi  
Member





KPMG Fakhro  
Audit  
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Kingdom of Bahrain

Telephone +973 17 224807  
Fax +973 17 227443  
Website: www.kpmg.com/bh  
CR No. 6220

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated sources and uses of good faith qard fund, and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Group.

### Report on other regulatory requirements

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


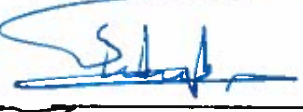

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the chairman's statement is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the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

KPMG Fakhro  
Partner Registration No. 100  
12 February 2017

**Bahrain Islamic Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
 As at 31 December 2016

	Note	2016 BD'000	2015 BD'000
<b>ASSETS</b>			
Cash and balances with banks and Central Bank	3	63,208	61,114
Placements with financial institutions	4	63,805	73,150
Financing assets	5	526,637	475,648
Investment securities	6	145,731	130,635
Ijarah Muntahia Bittamleek	8	151,752	113,938
Ijarah rental receivables	9	8,618	19,815
Investment in associates	7	26,487	28,116
Investment in real estate	11	28,066	43,601
Property and equipment	10	15,881	16,640
Other assets	12	12,003	13,691
<b>TOTAL ASSETS</b>		<b>1,042,188</b>	<b>976,348</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Placements from financial institutions		103,874	93,516
Customers' current accounts		152,647	157,300
Other liabilities	13	14,879	16,616
<b>Total Liabilities</b>		<b>271,400</b>	<b>267,432</b>
<b>Equity of Investment Accountholders</b>	14	<b>654,316</b>	<b>599,404</b>
<b>Owners' Equity</b>			
Share capital	15	101,339	97,441
Treasury shares	15	(563)	(563)
Shares under employee share incentive scheme		(604)	(879)
Share premium		56	2,794
Reserves		16,244	10,719
<b>Total Owners' Equity</b>		<b>116,472</b>	<b>109,512</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>		<b>1,042,188</b>	<b>976,348</b>


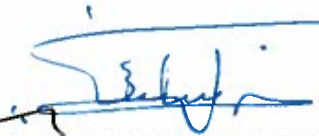

The consolidated financial statements, which consist of pages 6 to 47, were approved by the Board of Directors on 12 February 2017 and signed on its behalf by:

		
Dr. Esam Abdulla Fakhro Chairman	Khalid Mohammed Al Mannai Vice Chairman	Hassan Amin Jarrar Chief Executive Officer

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

**Bahrain Islamic Bank B.S.C.**  
**CONSOLIDATED INCOME STATEMENT**  
For the year ended 31 December 2016

	Note	2016 BD'000	2015 BD'000
<b>INCOME</b>			
Income from financing	18	34,881	33,530
Income from investment in Sukuk		4,096	3,659
<b>Total income from jointly financed assets</b>		<b>38,977</b>	<b>37,189</b>
Return on equity of investment accountholders		(29,301)	(29,961)
Group's share as Mudarib		22,170	24,774
Net return on equity of investment accountholders	14.5	(7,131)	(5,187)
<b>Group's share of income from jointly financed assets (both as mudarib and investor)</b>		<b>31,846</b>	<b>32,002</b>
Expense on placements from financial institutions		(1,225)	(546)
Fee and commission income		6,768	5,955
Income from investment securities	19	739	739
Income from investment in real estate	20	(563)	1,194
Share of results of associates, net	7	(437)	(711)
Other income	21	4,544	3,086
<b>Total Income</b>		<b>41,672</b>	<b>41,719</b>
<b>EXPENSES</b>			
Staff costs		11,181	10,212
Depreciation	10	1,519	1,554
Other expenses	22	10,820	9,795
<b>Total expenses</b>		<b>23,520</b>	<b>21,561</b>
<b>Profit before impairment allowances</b>		<b>18,152</b>	<b>20,158</b>
Impairment provisions on financing, net	23.1	(2,091)	(5,203)
Impairment provisions on investments, net	23.2	(7,641)	(3,750)
<b>PROFIT FOR THE YEAR</b>		<b>8,420</b>	<b>11,205</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (fils)</b>	25	<b>8.41</b>	<b>13.36</b>

		
Dr. Esam Abdulla Fakhro Chairman	Khalid Mohammed Al Mannai Vice Chairman	Hassan Amin Jarrar Chief Executive Officer

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

**Bahrain Islamic Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2016

	<i>Note</i>	<b>2016</b> <b>BD'000</b>	<b>2015</b> <b>BD'000</b>
<b>OPERATING ACTIVITIES</b>			
<b>Profit for the year</b>		<b>8,420</b>	<b>11,205</b>
Adjustments for non-cash items:			
Depreciation	10	1,519	1,554
Impairment provisions on financing, net	23.1	2,091	5,203
Impairment provisions on investments, net	23.2	7,641	3,750
Impairment charge on investment in real estate	20	82	339
Loss / (gain) on sale of investment in real estate	20	843	(1,166)
Share of results of associates, net	7	437	711
Gain on disposal of property and equipment		-	(72)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>21,033</b>	<b>21,524</b>
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		300	(3,010)
Financing assets		(52,789)	(71,256)
Ijarah Muntahia Bittamleek		(26,697)	(19,165)
Other assets		1,822	(8,885)
Customers' current accounts		(4,653)	3,821
Other liabilities		(1,711)	102
Placements from financial institutions		10,358	17,946
Equity of investment accountholders		54,912	48,859
<b>Net cash from / (used in) operating activities</b>		<b>2,575</b>	<b>(10,064)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of investment in real estate		-	(1,092)
Disposal of investment in real estate		12,868	11,980
Purchase of investment securities		(51,681)	(52,546)
Purchase of property and equipment		(760)	(1,481)
Disposal of property and equipment		-	506
Proceeds from disposal of investment securities		30,073	43,382
<b>Net cash (used in) / from investing activities</b>		<b>(9,500)</b>	<b>749</b>
<b>FINANCING ACTIVITIES</b>			
Rights issue		-	19,888
Dividends paid		(26)	(4)
<b>Net cash (used in) / from financing activities</b>		<b>(26)</b>	<b>19,884</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(6,951)</b>	<b>10,569</b>
Cash and cash equivalents at 1 January		97,687	87,118
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>90,736</b>	<b>97,687</b>
Cash and cash equivalents at year end comprise of:			
Cash on hand	3	12,829	12,011
Balances with CBB, excluding mandatory reserve deposits	3	3,877	4,936
Balances with banks and other financial institutions excluding restricted balances	3	10,225	7,590
Placements with financial institutions with original maturities less than 90 days	4	63,805	73,150
		<b>90,736</b>	<b>97,687</b>

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

**Bahrain Islamic Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**  
For the year ended 31 December 2016

	Share capital BD'000	Treasury shares BD'000	Shares under employee incentive scheme BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Reserves			Retained earnings / losses BD'000	Equity attributable to owners			Total owners' equity BD'000
							Real estate fair value reserve BD'000	Investments fair value reserve BD'000	Total reserves BD'000		Non-controlling interest BD'000	Total owners' equity BD'000		
													Real estate fair value reserve BD'000	
Balance at 1 January 2016	97,441	(563)	(879)	2,794	1,121	-	7,085	621	1,892	10,719	109,512	-	109,512	
Profit for the year	-	-	-	-	-	-	-	-	8,420	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	-	354	
Net movement in investments 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)	-	-	-	-	
<b>Balance at 31 December 2016</b>	<b>101,339</b>	<b>(563)</b>	<b>(604)</b>	<b>56</b>	<b>1,963</b>	<b>-</b>	<b>5,361</b>	<b>531</b>	<b>8,389</b>	<b>16,244</b>	<b>116,472</b>	<b>-</b>	<b>116,472</b>	
Balance at 1 January 2015	93,967	(563)	-	-	11,809	1,000	7,361	1,101	(35,581)	(14,320)	79,084	11	79,095	
Profit for the year	-	-	-	-	-	-	-	-	11,205	11,205	11,205	-	11,205	
Shares issued during the year	940	-	(940)	-	-	-	-	-	-	-	-	-	-	
Shares allocated during the year	-	-	61	30	-	-	-	-	-	-	91	-	91	
Rights issue	17,094	-	-	2,794	-	-	-	-	-	-	19,888	-	19,888	
Write off of accumulated losses	(14,560)	-	-	(30)	(11,809)	(1,000)	-	-	27,389	14,590	-	-	-	
Net movement in investments fair value reserve	-	-	-	-	-	-	-	(480)	-	(480)	-	-	(480)	
Net movement in real estate fair value reserve	-	-	-	-	-	(276)	-	-	-	(276)	-	-	(276)	
Transfer of profit to statutory reserve	-	-	-	-	1,121	-	-	-	(1,121)	-	-	-	-	
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(11)	(11)	
<b>Balance at 31 December 2015</b>	<b>97,441</b>	<b>(563)</b>	<b>(879)</b>	<b>2,794</b>	<b>1,121</b>	<b>-</b>	<b>7,085</b>	<b>621</b>	<b>1,892</b>	<b>10,719</b>	<b>109,512</b>	<b>-</b>	<b>109,512</b>	

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

**Bahrain Islamic Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH**  
**QARD FUND**

For the year ended 31 December 2016

	<i>Qard Hasan receivables</i> BD'000	<i>Funds available for Qard Hasan</i> BD'000	<i>Total</i> BD'000
<b>Balance at 1 January 2016</b>	<b>60</b>	<b>68</b>	<b>128</b>
Uses of Qard fund			
Marriage	5	(5)	-
Others (Waqf)	21	(21)	-
<b>Total uses during the year</b>	<b>26</b>	<b>(26)</b>	<b>-</b>
Repayments	(21)	21	-
<b>Balance at 31 December 2016</b>	<b>65</b>	<b>63</b>	<b>128</b>
Balance at 1 January 2015	80	48	128
Uses of Qard fund			
Marriage	9	(9)	-
Others (Waqf)	9	(9)	-
<b>Total uses during the year</b>	<b>18</b>	<b>(18)</b>	<b>-</b>
Repayments	(38)	38	-
<b>Balance at 31 December 2015</b>	<b>60</b>	<b>68</b>	<b>128</b>
		<b>2016</b>	<b>2015</b>
		<b>BD'000</b>	<b>BD'000</b>
<b>Sources of Qard fund</b>			
Contribution by the Bank		125	125
Donation		3	3
		<b>128</b>	<b>128</b>

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

**Bahrain Islamic Bank B.S.C.****CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND**

For the year ended 31 December 2016

	<b>2016</b> <b>BD'000</b>	<b>2015</b> <b>BD'000</b>
<b>Sources of zakah and charity funds</b>		
Undistributed zakah and charity funds at the beginning of the year	472	282
Non-Islamic income / late payment fee	248	616
Donations	1	-
<b>Total sources of zakah and charity funds during the year</b>	<b>721</b>	<b>898</b>
<b>Uses of zakah and charity funds</b>		
Philanthropic societies	139	103
Aid to needy families	360	323
<b>Total uses of funds during the year</b>	<b>499</b>	<b>426</b>
<b>Undistributed zakah and charity funds at the end of the year</b>	<b>222</b>	<b>472</b>

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**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 nine branches (2015: ten), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its subsidiaries (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 2017.

**2 SIGNIFICANT ACCOUNTING POLICIES**

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

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

*New standards, amendments, and interpretations effective from 1 January 2016:*

**FAS 27 – Investments Accounts**

FAS 27 investments accounts was issued in December 2014 replacing FAS 5 – 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 – 'Equity of Investment Account Holders and their Equivalent'. This standard is effective for financial periods beginning 1 January 2016. The adoption of this standard did not have a significant impact on the financial statements of the Group. Additional disclosures are set out in note 14.

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

No new standards, amendments to standards and interpretations have been issued but not yet effective for annual periods beginning on or after 1 January 2017.

**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.



**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****c. Basis of preparation**

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

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

**d. Basis of consolidation**

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

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

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

**e. Cash and cash equivalents**

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

**f. Placements with financial institutions**

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

**g. Financing assets**

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha and Musharaka. 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 (Murabaha) which are stated net of deferred profits and provisions for impairment, if any.

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

**i. Musharaka financing**

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

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

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### j. Investment securities

Investment securities comprise debt type instruments carried at amortised cost, 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, except in the case of investments carried at fair value through income statement, where transaction costs are expensed in the consolidated income statement.

##### *Debt type instruments carried at amortised cost*

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

##### *Equity type instruments carried at fair value through equity*

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

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

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

##### k. Measurement principles

##### *Fair value measurement*

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

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

Investments classified at fair value through equity where there is no quoted price or the Bank is unable to determine a reliable measure of fair value on a continuing basis, such investments 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.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****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 instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the income statement.

**n. Investment in real estate**

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

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

**o. Property and equipment**

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

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****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.

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

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

**q. Investment risk reserve**

Investment risk reserves are amounts appropriated out of the income of equity of investment 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.

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

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

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****v. Derecognition of financial assets and liabilities (continued)**

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

*Financial liabilities*

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

**w. Treasury shares**

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

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

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

**y. Offsetting**

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

**z. Income recognition***Murabaha and Wakala*

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

*Musharaka*

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

*Sukuk*

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

*Placements with financial institutions*

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

*Ijarah Muntahia Bittamleek*

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

*Dividends income*

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

*Fee and commission income*

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****aa. Foreign currencies**

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

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

**bb. Impairment of financial assets**

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

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

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

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

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

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

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

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

#### 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.].

##### *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.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****ee. Customers' current accounts**

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

**ff. Employees' benefits****i) Short-term benefits**

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

**ii) Post-employment benefits**

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

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

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

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

**iii) Share based employee incentive scheme**

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

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

**gg. Financial guarantees**

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

**hh. Repossessed assets**

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

**ii. Statutory reserve**

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



## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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

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

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

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Cash on hand	12,829	12,011
Balances with CBB, excluding mandatory reserve deposits	3,877	4,936
Balances with banks and other financial institutions	12,737	10,102
	<b>29,443</b>	<b>27,049</b>
Mandatory reserve with CBB	33,765	34,065
	<b>63,208</b>	<b>61,114</b>

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

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

**4 PLACEMENTS WITH FINANCIAL INSTITUTIONS**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Commodity Murabaha	43,511	59,116
Deferred profits	(27)	(7)
	<b>43,484</b>	<b>59,109</b>
Wakala	20,321	14,041
	<b>63,805</b>	<b>73,150</b>

**5 FINANCING ASSETS**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Murabaha (note 5.1)	417,098	371,881
Musharaka (note 5.2)	109,539	103,767
	<b>526,637</b>	<b>475,648</b>

**5.1 Murabaha**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Tasheef	225,868	226,578
Tawarooq	136,348	128,068
Altamweel Almaren	68,355	41,008
Letters of credit refinance	29,198	18,343
Motor vehicles Murabaha	13,058	14,769
Credit cards	15,894	13,920
Others	70	230
	<b>488,791</b>	<b>442,916</b>
Qard fund	65	60
<b>Gross receivables</b>	<b>488,856</b>	<b>442,976</b>
Deferred profits	(45,781)	(46,808)
Provision for impairment	(25,977)	(24,287)
	<b>417,098</b>	<b>371,881</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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

Non-performing Murabaha financing outstanding as of 31 December 2016 amounted to BD 30,951 thousand (2015: BD 19,011 thousand).

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

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

	2016 BD'000	2015 BD'000
Commercial	73,780	51,094
Financial institutions	16,214	4,530
Others including retail	353,082	340,544
	<u>443,076</u>	<u>396,168</u>

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

**5.2 Musharaka**

	2016 BD'000	2015 BD'000
Musharaka in real estate	110,263	106,761
Provision for impairment	(724)	(2,994)
	<u>109,539</u>	<u>103,767</u>

Non-performing Musharaka financing outstanding as of 31 December 2016 amounted to BD 4,731 thousand (2015: BD 4,938 thousand).

**6 INVESTMENT SECURITIES**

	2016 BD'000	2015 BD'000
<b>i) Debt type instruments</b>		
<i>Quoted Sukuk - carried at amortised cost</i>		
Balance at 1 January	20,486	18,819
Acquisitions	41,254	2,740
Disposals and redemptions	(114)	(1,073)
Balance at 31 December	<u>61,626</u>	<u>20,486</u>
<i>Unquoted Sukuk - carried at amortised cost</i>		
Balance at 1 January	80,295	66,989
Acquisitions	10,427	49,806
Disposals and redemptions	(29,959)	(36,500)
	<u>60,763</u>	<u>80,295</u>
Provision for impairment	(9,106)	(4,914)
Balance at 31 December	<u>51,657</u>	<u>75,381</u>
<b>ii) Equity type instruments</b>		
<i>Quoted shares - at fair value through equity</i>		
Balance at 1 January	2,392	2,392
Provision for impairment	(1,704)	(1,373)
Balance at 31 December	<u>688</u>	<u>1,019</u>
<i>Unquoted shares - at cost less impairment</i>		
At 1 January	24,963	29,201
Write off	-	(4,238)
Provision for impairment	(7,371)	(5,418)
Balance at 31 December	<u>17,592</u>	<u>19,545</u>
<i>Unquoted managed funds - at cost less impairment</i>		
Balance at 1 January	14,444	36,541
Foreign currency translation changes	(36)	(301)
Disposals	-	(5,809)
Write off	(240)	(15,987)
Provision for impairment	-	(240)
Balance at 31 December	<u>14,168</u>	<u>14,204</u>
<b>Total net investment securities</b>	<u>145,731</u>	<u>130,635</u>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

## 7 INVESTMENT IN ASSOCIATES

	2016 BD'000	2015 BD'000
At 1 January	28,116	30,835
Share of results of associates, net	(437)	(711)
Share of changes in investee's equity	(92)	(366)
Provision for impairment	(1,100)	(1,642)
<b>At 31 December</b>	<b>26,487</b>	<b>28,116</b>

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

	2016 BD'000	2015 BD'000
Total assets	209,079	217,141
Total liabilities	79,670	85,954
Total revenues	5,925	9,057
Total net loss	(856)	(51)

Investment in associates comprise:

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.
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.

\* Takaful International Company B.S.C. is a listed company on the Bahrain Bourse. The latest available quoted price of BD 0.100 per share was as of 22 April 2015, no further trades have taken place on the company's shares since that date. The estimate fair value of the investment based on this price is BD 1,422 thousand (2014: BD 2,062 thousand).

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

## 8 IJARAH MUNTAHIA BITTAMLEEK

	2016				2015			
	Properties BD'000	Aviation related assets BD'000	Others BD'000	Total BD'000	Properties BD'000	Aviation related assets BD'000	Others BD'000	Total BD'000
<b>Cost:</b>								
At 1 January	147,165	7,540	3,253	157,958	124,749	7,540	6,130	138,419
Additions	47,648	-	-	47,648	42,464	-	-	42,464
Settlements / adjustments	(16,439)	-	(750)	(17,189)	(20,048)	-	(2,877)	(22,925)
<b>At 31 December</b>	<b>178,374</b>	<b>7,540</b>	<b>2,503</b>	<b>188,417</b>	<b>147,165</b>	<b>7,540</b>	<b>3,253</b>	<b>157,958</b>
<b>Accumulated depreciation:</b>								
At 1 January	35,087	7,540	1,393	44,020	47,031	7,540	3,990	58,561
Charge for the year	10,495	-	1,110	11,605	10,749	-	-	10,749
Settlements / adjustments	(11,646)	(7,314)	-	(18,960)	(22,693)	-	(2,597)	(25,290)
<b>At 31 December</b>	<b>33,936</b>	<b>226</b>	<b>2,503</b>	<b>36,665</b>	<b>35,087</b>	<b>7,540</b>	<b>1,393</b>	<b>44,020</b>
Net book value: <b>As at 31 December</b>	<b>144,438</b>	<b>7,314</b>	<b>-</b>	<b>151,752</b>	<b>112,078</b>	<b>-</b>	<b>1,860</b>	<b>113,938</b>

## 9 IJARAH RENTAL RECEIVABLES

	2016 BD'000	2015 BD'000
Gross Ijarah rental receivables	21,888	33,005
Provision for impairment	(13,270)	(13,190)
	<b>8,618</b>	<b>19,815</b>

Non-performing Ijarah rental receivables as of 31 December 2016 is BD 17,630 thousand (2015: BD 31,452 thousand).

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

## 10 PROPERTY AND EQUIPMENT

	2016						
	<i>Lands BD'000</i>	<i>Buildings BD'000</i>	<i>Fixture and fitting BD'000</i>	<i>Equipment BD'000</i>	<i>Furniture BD'000</i>	<i>Work in progress BD'000</i>	<i>Total BD'000</i>
<b>Cost:</b>							
At 1 January	6,755	7,651	3,695	9,782	869	516	29,268
Additions	-	-	119	585	14	42	760
<b>At 31 December</b>	<b>6,755</b>	<b>7,651</b>	<b>3,814</b>	<b>10,367</b>	<b>883</b>	<b>558</b>	<b>30,028</b>
<b>Depreciation:</b>							
At 1 January	-	1,699	2,853	7,393	683	-	12,628
Charge for the year	-	263	291	905	60	-	1,519
<b>At 31 December</b>	<b>-</b>	<b>1,962</b>	<b>3,144</b>	<b>8,298</b>	<b>743</b>	<b>-</b>	<b>14,147</b>
<b>Net Book Value</b>	<b>6,755</b>	<b>5,689</b>	<b>670</b>	<b>2,069</b>	<b>140</b>	<b>558</b>	<b>15,881</b>
	2015						
	<i>Lands BD'000</i>	<i>Buildings BD'000</i>	<i>Fixture and fitting BD'000</i>	<i>Equipment BD'000</i>	<i>Furniture BD'000</i>	<i>Work in progress BD'000</i>	<i>Total BD'000</i>
<b>Cost:</b>							
At 1 January	7,143	7,387	3,393	9,065	823	410	28,221
Additions	-	264	302	763	46	106	1,481
Disposals	(388)	-	-	(46)	-	-	(434)
<b>At 31 December</b>	<b>6,755</b>	<b>7,651</b>	<b>3,695</b>	<b>9,782</b>	<b>869</b>	<b>516</b>	<b>29,268</b>
<b>Depreciation:</b>							
At 1 January	-	1,439	2,517	6,550	614	-	11,120
Charge for the year	-	260	336	889	69	-	1,554
Relating to disposed assets	-	-	-	(46)	-	-	(46)
<b>At 31 December</b>	<b>-</b>	<b>1,699</b>	<b>2,853</b>	<b>7,393</b>	<b>683</b>	<b>-</b>	<b>12,628</b>
<b>Net Book Value</b>	<b>6,755</b>	<b>5,952</b>	<b>842</b>	<b>2,389</b>	<b>186</b>	<b>516</b>	<b>16,640</b>

**Bahrain Islamic Bank B.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
 31 December 2016

**11 INVESTMENT IN REAL ESTATE**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Land	25,777	41,006
Buildings	2,289	2,595
	<b>28,066</b>	<b>43,601</b>
	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
At 1 January	43,601	53,934
Capitalized expenditure	-	1,092
Disposal	(13,728)	(10,814)
Fair value changes	(1,807)	(611)
<b>At 31 December</b>	<b>28,066</b>	<b>43,601</b>

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

Investment in real estate held for capital appreciation is stated at fair value as at 31 December, which has been determined based on valuations performed by independent third party property valuers who have the qualification and experience of valuing similar properties in the same location. Fair value of investments in real estate is classified as category 2 of fair value hierarchy.

**12 OTHER ASSETS**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Repossessed assets	6,916	5,245
Receivables	2,438	4,761
Staff advances	1,665	1,324
Prepaid expenses	945	696
Other	39	1,665
	<b>12,003</b>	<b>13,691</b>

**13 OTHER LIABILITIES**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Managers' cheques	4,748	3,786
Payable to vendors	2,837	1,626
Accrued expenses	2,990	3,312
Life Insurance (Takaful) fees payable	1,568	1,844
Dividends payable	776	802
Zakah and charity fund	222	472
Other	1,738	4,774
	<b>14,879</b>	<b>16,616</b>

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**14 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.

**14.1 Equity of investment accountholders balances**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Type of Equity of Investment Accountholders</b>		
Customer investment accounts		
Balances on demand	313,612	290,862
Contractual basis	340,704	308,542
	<b>654,316</b>	<b>599,404</b>

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

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

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Asset</b>		
Cash and balances with banks and Central Bank	31,361	29,086
Gross financing assets	374,770	342,998
Gross Ijarah Muntahia Bittamleek and rental receivables	126,217	118,826
Collective impairment	(3,885)	(4,450)
Investment securities	113,750	92,076
Investment in real estate	3,196	13,621
Other assets	8,907	7,247
	<b>654,316</b>	<b>599,404</b>

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.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

## 14.3 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 and the percentage of funds invested in assets (utilization):

Account type	2016			2015		
	Utilization	Mudhareb Share	Profit to IAH	Utilization	Mudhareb Share	Profit to IAH
Tejoori	90%	96.95%	2.69%	90%	97.22%	2.42%
Savings	90%	96.84%	2.80%	90%	97.02%	2.59%
Vevo	90%	97.12%	2.53%	90%	97.21%	2.42%
Iqra	100%	65.69%	32.02%	100%	72.09%	26.43%
Time deposits	100%	62.74%	35.03%	100%	72.37%	26.16%

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

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

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

## 14.4 Equity of Investment Accountholders Reserves

	2016 BD'000	Movement BD'000	2015 BD'000
Profit equalisation reserve	1,245	250	995
Investment risk reserve	757	530	227

## 14.5 Return on equity of investment accountholders

	2016 BD'000	2015 BD'000
Gross return to equity of investment accountholders	30,081	30,685
Allocation to profit equalization reserve	(250)	(600)
Group's share as a Mudarib	(22,170)	(24,774)
Allocation to investment risk reserve	(530)	(124)
Net return on equity of investment accountholders	<u>7,131</u>	<u>5,187</u>



## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 15 OWNERS' EQUITY

	2016 BD'000	2015 BD'000															
(i) Share capital																	
a) <i>Authorised</i>																	
2,000,000,000 shares (2015: 2,000,000,000 shares) of BD 0.100 each	<u>200,000</u>	<u>200,000</u>															
b) <i>Issued and fully paid up</i>																	
1,013,389,130 shares (2015: 974,412,625 shares) of BD 0.100 each	<u>101,339</u>	<u>97,441</u>															
(ii) Treasury Shares	<table border="1"> <thead> <tr> <th colspan="2" style="text-align: center;">2016</th> <th style="text-align: center;">2015</th> </tr> <tr> <th style="text-align: center;">Number of Shares</th> <th style="text-align: center;">BD'000</th> <th style="text-align: center;">BD'000</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"><u>3,065,167</u></td> <td style="text-align: center;"><u>563</u></td> <td style="text-align: center;"><u>563</u></td> </tr> </tbody> </table>	2016		2015	Number of Shares	BD'000	BD'000	<u>3,065,167</u>	<u>563</u>	<u>563</u>	<table border="1"> <thead> <tr> <th colspan="2" style="text-align: center;">2016</th> </tr> <tr> <th colspan="2" style="text-align: center;">BD'000</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">563</td> <td style="text-align: center;">377</td> </tr> </tbody> </table>	2016		BD'000		563	377
2016		2015															
Number of Shares	BD'000	BD'000															
<u>3,065,167</u>	<u>563</u>	<u>563</u>															
2016																	
BD'000																	
563	377																
At 31 December	<u>3,065,167</u>	<u>563</u>															
		<b>2016 BD'000</b>															
Cost of treasury shares		563															
Market value of treasury shares		377															

The treasury shares as a percentage of total shares in issue is 0.37%.

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

## (iii) Reserves

*Statutory reserve*

A transfer has been made of BD 842 thousand (2015: 1,121 thousand) representing 10% of the profit for the year BD 8,420 thousand (2015: 11,205 thousand). The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of CBB.

*General reserve*

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

*Real estate fair value reserve*

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

*Investment fair value reserve*

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

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 15 OWNERS' EQUITY (continued)

(iv) Additional information on shareholding pattern

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

Names	Nationality	2016		2015	
		Number of shares	% holding	Number of shares	% holding
National Bank of Bahrain	Bahraini	294,482,159	29.06%	283,155,923	29.06%
Social Insurance Organisation	Bahraini	147,242,463	14.53%	141,579,292	14.53%
Social Insurance Organisation - Military Pension Fund	Bahraini	147,242,464	14.53%	141,579,293	14.53%
Islamic Development Bank	Saudi	146,117,221	14.42%	140,497,329	14.42%
General Council of Kuwaiti Awaqaf	Kuwaiti	72,729,830	7.18%	69,932,530	7.18%

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

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

	2016			2015		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	145,893,657	3,266	14.39%	140,197,699	3,376	14.39%
1% up to less than 5%	59,769,380	3	5.90%	57,470,559	3	5.90%
5% up to less than 10%	72,641,786	1	7.18%	69,932,530	1	7.18%
10% up to less than 50%	735,084,307	4	72.54%	706,811,837	4	72.53%
	<b>1,013,389,130</b>	<b>3,274</b>	<b>100.00%</b>	<b>974,412,625</b>	<b>3,384</b>	<b>100.00%</b>

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

Categories:

	2016		2015	
	No. of shares	No. of directors	No. of shares	No. of directors
Less than 1%	414,320	3	438,632	4

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):

	2016		2015	
	No. of shares	Percentage of Shareholding	No. of shares	Percentage of Shareholding
Directors	414,320	0.041%	438,632	0.045%
Shari'a supervisory members	180,823	0.018%	169,158	0.017%
Senior management	418,496	0.041%	603,537	0.062%
	<b>1,013,639</b>	<b>0.100%</b>	<b>1,211,327</b>	<b>0.124%</b>

v) Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 137 thousand in 2016 (2015: BD nil) and cash dividend of 5% amounting to BD 5,051 thousand (2015: bonus shares as dividends amounting to BD 3,898 thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 16 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:

	2016 BD'000	2015 BD'000
Letters of credit and acceptances	6,182	2,918
Guarantees	43,966	40,971
Credit cards	26,103	45,883
Operating lease commitments *	356	1,238
	<u>76,607</u>	<u>91,010</u>

\* 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:

	2016 BD'000	2015 BD'000
Within one year	3	70
After one year but not more than five years	353	1,168
	<u>356</u>	<u>1,238</u>

## 17 CAPITAL ADEQUACY

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

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

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

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**17 CAPITAL ADEQUACY (continued)**

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

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
CET 1 Capital before regulatory adjustments	111,111	102,571
Less: regulatory adjustments	-	-
<b>CET 1 Capital after regulatory adjustments</b>	<b>111,111</b>	<b>102,571</b>
T 2 Capital adjustments	11,961	14,426
<b>Regulatory Capital</b>	<b>123,072</b>	<b>116,997</b>

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

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Risk weighted exposure:</b>		
Total Credit Risk Weighted Assets	527,820	587,023
Total Market Risk Weighted Assets	12,226	15,589
Total Operational Risk Weighted Assets	66,722	57,153
<b>Total Regulatory Risk Weighted Assets</b>	<b>606,768</b>	<b>659,765</b>
Investment risk reserve (30% only)	227	68
Equalization reserve (30% only)	374	299
<b>Total Adjusted Risk Weighted Exposures</b>	<b>606,167</b>	<b>659,398</b>
<b>Capital Adequacy Ratio</b>	<b>20.30%</b>	<b>17.73%</b>
<b>Tier 1 Capital Adequacy Ratio</b>	<b>18.33%</b>	<b>15.55%</b>
Minimum requirement	12.5%	12.5%

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

**18 INCOME FROM FINANCING**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Income from Murabaha financing	20,143	19,889
Income from placements with financial institutions	341	139
Income from Musharaka financing	6,300	6,781
Income from Ijarah Muntahia Bittamleek	8,097	6,721
	<b>34,881</b>	<b>33,530</b>

**19 INCOME FROM INVESTMENT SECURITIES**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Dividend income	739	739
	<b>739</b>	<b>739</b>

**20 INCOME FROM INVESTMENT IN REAL ESTATE**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
(Loss) / gain on sale	(843)	1,166
Rental income	362	367
Impairment charge	(82)	(339)
	<b>(563)</b>	<b>1,194</b>

**21 OTHER INCOME**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Recoveries from previously written off financing	3,499	-
Foreign exchange (loss) / gain	(1,001)	1,222
Others	2,046	1,864
	<b>4,544</b>	<b>3,086</b>

**22 OTHER EXPENSES**

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Marketing and advertisement expenses	2,670	1,678
Information technology related expenses	1,312	1,016
Card Centre expenses	1,203	1,865
Premises and equipment expenses	1,233	1,259
Communication expenses	952	780
Professional services	933	620
Board remunerations	300	535
Board of directors sitting fees	178	125
Shari'a committee fees & remuneration	85	45
Others	1,954	1,872
	<b>10,820</b>	<b>9,795</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 23 IMPAIRMENT PROVISIONS

## 23.1 Impairment provisions on financing

	Specific impairment		Collective impairment		Total	
	2016 BD'000	2015 BD'000	2016 BD'000	2015 BD'000	2016 BD'000	2015 BD'000
At 1 January	29,145	31,578	11,326	10,818	40,471	42,396
Charge for the year	3,924	7,003	1,225	1,119	5,149	8,122
Recoveries and write backs	(3,058)	(2,919)	-	-	(3,058)	(2,919)
	866	4,084	1,225	1,119	2,091	5,203
Amounts written off against provision	(2,474)	(6,517)	(117)	(611)	(2,591)	(7,128)
<b>At 31 December</b>	<b>27,537</b>	<b>29,145</b>	<b>12,434</b>	<b>11,326</b>	<b>39,971</b>	<b>40,471</b>

The above impairment provision relates to the following:

	2016 BD'000	2015 BD'000
Murabaha financing	25,977	24,287
Musharaka financing	724	2,994
Ijarah Muntahia Bittamleek	13,270	13,190
	<b>39,971</b>	<b>40,471</b>

## 23.2 Impairment provisions on investments

	2016 BD'000	2015 BD'000
At 1 January	14,998	33,418
Charge for the year *	7,641	4,925
Recoveries and write backs	-	(1,175)
	7,641	3,750
Amounts written off against provision	(1,907)	(21,817)
Foreign currency translation changes	(43)	(353)
<b>At 31 December</b>	<b>20,689</b>	<b>14,998</b>

\* Impairment charge includes BD 1,100 thousand (2015: BD 1,642 thousand) impairment charge on investment in associate.

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2016 amounts to BD 97,468 thousand (31 December 2015: BD 112,863 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.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

**24 ZAKAH**

The total Zakah payable as of 31 December 2016 amounted to BD 1,627 thousand (2015: BD 1,289 thousand) of which the Bank has BD 137 thousand Zakah payable (2015: BD nil ) based on the statutory reserve, general reserve and retained earning as at 1 January 2016. The Zakah balance amounting to BD 1,490 thousand or 1.5 fils per share (2015: BD 1,289 thousand or 1.3 fils per share) is due and payable by the shareholders.

**25 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:

	2016	2015
Profit for the year in BD'000	8,420	11,205
Weighted average number of shares	1,001,030	838,384
Basic and diluted earnings per share (fils)	8.41	13.36

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

**26 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:

	2016				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
<b>Assets</b>					
Financing assets	-	-	1,615	-	1,615
Investment in associates	-	26,487	-	-	26,487
Other assets	-	-	-	402	402
<b>Liabilities and Equity of investment accountholders</b>					
Placements 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
	2016				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Income</b>					
Income from financing	-	-	86	-	86
Share of results of associates, net	-	(437)	-	-	(437)
<b>Return on equity of investment accountholders</b>	(658)	(5)	(15)	(35)	(713)
<b>Expense on placements from financial institutions</b>	(304)	-	-	-	(304)
<b>Expenses</b>					
Other expenses	-	-	(563)	(1,422)	(1,985)

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**26 RELATED PARTY TRANSACTIONS (continued)**

	2015				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
<b>Assets</b>					
Financing assets	-	-	2,074	17	2,091
Investment in associates	-	25,397	-	-	25,397
Other assets	-	-	-	201	201
<b>Liabilities and Equity of investment accountholders</b>					
Placements from financial institutions	37,700	-	-	-	37,700
Customers' current accounts	-	968	520	247	1,735
Other liabilities	-	1,844	-	-	1,844
Equity of investment accountholders	41,567	275	1,255	917	44,014

	2015				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
<b>Income</b>					
Income from financing	-	4	151	1	156
Share of results of associates	-	(711)	-	-	(711)
Return on equity of investment accountholders	(472)	(1)	(1)	(27)	(501)
Expense on placements from financial institutions	(248)	-	-	-	(248)
<b>Expenses</b>					
Other expenses	-	-	(705)	(1,009)	(1,714)

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

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

	2016 BD'000	2015 BD'000
Short term employee benefits	1,226	849
Other long term benefits	196	160
	<b>1,422</b>	<b>1,009</b>



**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**27 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. These risks and the processes to mitigate these risks have not significantly changed from the previous year.

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

**Risk management objectives**

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

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

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

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

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

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

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

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

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

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

**Risk Measurement and Reporting Systems**

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

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

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

**Credit Risk Mitigation**

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

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

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

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

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

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

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

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

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

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

	<b>2016</b>	<b>2015</b>
	<b>BD'000</b>	<b>BD'000</b>
Balances with banks and Central Bank	50,379	49,103
Placements with financial institutions	63,805	73,150
Financing assets	526,637	475,648
Ijarah Muntahia Bittamleek and Rental Recievables	160,370	133,753
Investment debt securities	113,283	95,867
	<b>914,474</b>	<b>827,521</b>
Letters of credit, guarantees and acceptances	<b>50,148</b>	<b>43,889</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

## 27 RISK MANAGEMENT (continued)

## a) Credit Risk (continued)

## (ii) Risk concentrations of the maximum exposure to credit risk

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

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

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
<b>Geographical region</b>						
Middle East	1,030,644	967,215	924,205	865,149	50,504	45,127
Rest of Asia	-	-	849	917	-	-
North America	5,801	5,241	83	68	-	-
Europe	5,743	3,892	579	702	-	-
	<b>1,042,188</b>	<b>976,348</b>	<b>925,716</b>	<b>866,836</b>	<b>50,504</b>	<b>45,127</b>
<b>Industry sector</b>						
Trading and manufacturing	79,901	60,541	42,443	26,318	14,276	13,267
Aviation	-	518	1,977	10,768	820	701
Real Estate	197,234	236,509	22,266	20,509	2,288	1,817
Banks and financial Institutions	138,130	126,933	131,837	109,900	669	646
Personal / Consumer	381,084	333,181	441,795	426,838	427	1,403
Government Organization	132,860	117,266	143,222	101,252	-	-
Others	114,979	101,400	142,176	171,251	32,014	27,293
	<b>1,042,188</b>	<b>976,348</b>	<b>925,716</b>	<b>866,836</b>	<b>50,504</b>	<b>45,127</b>

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

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

	31 December 2016					
	Balances with banks and Central Bank	Placements with financial institutions	Financing assets	Ujarah Muntahia Bittamleek and rental receivables	Investment securities (Sukuk)	Total
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Past due and impaired	-	-	52,251	28,608	12,560	93,419
Specific Impairment	-	-	(16,560)	(10,977)	(9,106)	(36,643)
Carrying value	-	-	35,691	17,631	3,454	56,776
Past due but not impaired:						
Less than 30 days	-	-	37,962	16,005	-	53,967
31 to 60 Days	-	-	12,041	1,345	-	13,386
61 to 90 days	-	-	9,460	432	-	9,892
Carrying value	-	-	59,463	17,782	-	77,245
Neither past due nor impaired	12,737	63,805	441,099	119,691	27,682	665,014
Carrying value	12,737	63,805	441,099	119,691	27,682	665,014
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)
	<b>50,379</b>	<b>63,805</b>	<b>526,637</b>	<b>160,370</b>	<b>113,283</b>	<b>914,474</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

## 27 RISK MANAGEMENT (continued)

## a) Credit Risk (continued)

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

	31 December 2015					
	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	-	-	48,756	43,065	12,575	104,396
Specific impairment	-	-	(17,979)	(11,156)	(4,914)	(34,049)
Carrying value	-	-	30,777	31,909	7,661	70,346
Past due but not impaired:						
Less than 30 days	-	-	26,205	10,001	-	36,206
31 to 60 Days	-	-	6,666	1,602	-	8,268
61 to 90 days	-	-	3,536	393	-	3,929
Carrying value	-	-	36,407	11,996	-	48,403
Neither past due nor impaired	10,102	73,150	408,198	91,881	28,021	611,352
Carrying value	10,102	73,150	408,198	91,881	28,021	611,352
Sovereign	39,001	-	9,569	-	60,185	108,755
Carrying value	39,001	-	9,569	-	60,185	108,755
Collective impairment	-	-	(9,302)	(2,034)	-	(11,336)
	49,103	73,150	475,649	133,752	95,867	827,521

Restructured facilities during the year amounted to BD 20,580 thousand (2015: BD 3,789 thousand).

## b) Liquidity Risk

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

**Bahrain Islamic Bank B.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
31 December 2016

**27 RISK MANAGEMENT (continued)**

**b) Liquidity Risk (continued)**

**Maturity profile of Group's assets and liabilities**

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

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 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
<b>ASSETS</b>								
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	332,059	-	526,637
Ijarah Muntahia Bittamleek and Rental Receivables	11,542	2,091	21	63	1,506	145,147	-	160,370
Investment securities	97	1,504	3,798	-	38,685	101,647	-	145,731
Investment in associates	-	-	-	-	-	-	26,487	26,487
Investment in real estate	-	-	-	-	-	-	28,066	28,066
Property and equipment	-	-	-	-	-	-	15,881	15,881
Other assets	379	1,665	-	-	3,044	-	6,915	12,003
<b>Total assets</b>	<b>128,745</b>	<b>20,748</b>	<b>27,067</b>	<b>49,515</b>	<b>126,145</b>	<b>578,853</b>	<b>111,115</b>	<b>1,042,188</b>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>								
Placements from financial institutions	84,117	8,180	11,577	-	-	-	-	103,874
Customers' current accounts	152,647	-	-	-	-	-	-	152,647
Other liabilities	14,879	-	-	-	-	-	-	14,879
Equity of investment accountholders	433,806	77,119	84,079	50,014	5,003	-	4,296	654,317
<b>Total liabilities and equity of investment accountholders</b>	<b>685,449</b>	<b>85,299</b>	<b>95,656</b>	<b>50,014</b>	<b>5,003</b>	<b>-</b>	<b>4,296</b>	<b>925,717</b>
<b>Liquidity gap</b>	<b>(556,704)</b>	<b>(64,551)</b>	<b>(68,589)</b>	<b>(499)</b>	<b>121,142</b>	<b>578,853</b>	<b>106,819</b>	<b>116,471</b>
<b>Cumulative liquidity gap</b>	<b>(556,704)</b>	<b>(621,255)</b>	<b>(689,844)</b>	<b>(690,343)</b>	<b>(569,201)</b>	<b>9,652</b>	<b>116,471</b>	<b>-</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

## 27 RISK MANAGEMENT (continued)

## b) Liquidity risk (continued)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2015 was as follows:

ASSETS	Up to	1 to 3	3 to 6	6 months	1 to 3	Over	No fixed maturity	Total
	1 month	months	months	to 1 year	years	3 years		
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with the banks and Central Bank	27,049	-	-	-	-	-	34,065	61,114
Placements with financial institutions	73,150	-	-	-	-	-	-	73,150
Financing assets	25,049	3,532	13,614	27,451	78,663	327,339	-	475,648
Ijarah Muntahia Bittamleek and Rental Receivables	6,059	96	6	41	11,580	115,971	-	133,753
Investments securities	5,143	16,472	7,793	500	22,524	78,203	-	130,635
Investment in associates	-	-	-	-	-	-	28,116	28,116
Investment in real estate	-	-	-	-	-	-	43,601	43,601
Property and equipment	-	-	-	-	-	-	16,640	16,640
Other assets	4,342	1,324	-	-	2,780	-	5,245	13,691
<b>Total assets</b>	<b>140,792</b>	<b>21,424</b>	<b>21,413</b>	<b>27,992</b>	<b>115,547</b>	<b>521,513</b>	<b>127,667</b>	<b>976,348</b>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>								
Placements from financial institutions	63,288	30,228	-	-	-	-	-	93,516
Customers' current accounts	157,300	-	-	-	-	-	-	157,300
Other liabilities	16,616	-	-	-	-	-	-	16,616
Equity investment accountholders	362,827	116,463	72,053	38,919	5,652	-	3,490	599,404
<b>Total liabilities and equity of investment accountholders</b>	<b>600,030</b>	<b>146,691</b>	<b>72,053</b>	<b>38,919</b>	<b>5,652</b>	<b>-</b>	<b>3,490</b>	<b>866,836</b>
Liquidity gap	(459,238)	(125,267)	(50,640)	(10,927)	109,895	521,513	124,177	109,513
Cumulative liquidity gap	(459,238)	(584,505)	(635,145)	(646,072)	(536,177)	(14,664)	109,513	-

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

## 27 RISK MANAGEMENT (continued)

## c) Market Risk

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

## (i) Profit rate risk

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

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

## (ii) Equity price risk

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

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

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

	<i>Increase in equity price</i>	<i>Sensitivity of profit or loss</i>	<i>Sensitivity of equity</i>
	%	BD'000	BD'000
<b>2016</b>			
Kuwait Stock Exchange	+10	69	-
	<i>Increase in equity price</i>	<i>Sensitivity of profit or loss</i>	<i>Sensitivity of equity</i>
	%	BD'000	BD'000
<b>2015</b>			
Kuwait Stock Exchange	+10	102	-

As at the consolidated statement of financial position date, the Group has unquoted (equities and sukuk) of BD 133 million (31 December 2015: BD 115 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.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

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

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

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

	<i>Equivalent Long (short)</i>	<i>Equivalent Long (short)</i>
	<u>2016</u>	<u>2015</u>
	<i>BD '000</i>	<i>BD '000</i>
<b>Currency</b>		
Pound Sterling	(1,016)	4
Euro	(1,051)	(10,131)
CAD	(3)	(4,295)
JPY	(3)	(1,122)
Kuwaiti Dinars	(10,131)	-

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

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

**iv) Commodity risk**

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

**d) Operational Risk**

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



## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

## 28 SEGMENTAL INFORMATION

For management purposes, the Group is organised 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 2016			
	Corporate BD'000	Retail BD'000	Investment BD'000	Total BD'000
Total net income	12,928	27,868	876	41,672
Total expenses	(3,791)	(17,140)	(2,589)	(23,520)
Provision for impairment	251	(2,342)	(7,641)	(9,732)
<b>Profit / (loss) for the year</b>	<b>9,388</b>	<b>8,386</b>	<b>(9,354)</b>	<b>8,420</b>
<b>Other information</b>				
Segment assets	277,177	452,746	312,265	1,042,188
Segment liabilities, and equity	304,460	512,642	225,086	1,042,188
	31 December 2015			
	Corporate BD'000	Retail BD'000	Investment BD'000	Total BD'000
Total income	10,906	25,909	4,904	41,719
Total expenses	(2,744)	(14,217)	(4,600)	(21,561)
Provision for impairment	(4,417)	(786)	(3,750)	(8,953)
<b>Profit / (loss) for the year</b>	<b>3,745</b>	<b>10,906</b>	<b>(3,446)</b>	<b>11,205</b>
<b>Other information</b>				
Segment assets	239,128	416,251	320,969	976,348
Segment liabilities, and equity	277,850	490,128	208,370	976,348

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**29 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 31,760 thousand (2015: BD 33,749 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:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>
<b>2016</b>				
<b>Investments carried at fair value through equity</b>				
Quoted equity securities	<u>688</u>	<u>-</u>	<u>-</u>	<u>688</u>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>
<b>2015</b>				
<b>Investments carried at fair value through equity</b>				
Quoted equity securities	<u>645</u>	<u>-</u>	<u>-</u>	<u>645</u>

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

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

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

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

**31 SHARI'A SUPERVISORY BOARD**

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

**32 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.

**33 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.

**APPENDIX D -**

**CONSOLIDATED AUDITED FINANCIAL STATEMENTS**

For The Year Ended 31 December 2017

**Bahrain Islamic Bank B.S.C.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2017**

## **Board of Directors Report**

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

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

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

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

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

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

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

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

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

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

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



**Dr. Esam Abdulla Fakhro**  
Chairman of the Board

**Sharia’a Supervisory Board report  
For the year ended on 31/12/2017**


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

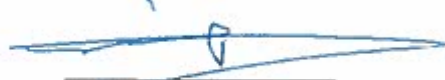
To the shareholders of Bahrain Islamic Bank B.S.C.


Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

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

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

  
Shaikh Dr. A. Latif Mahmood Al Mahmood  
Chairman

  
Shaikh Mohammed Jaffar Al Juffairi  
Vice Chairman

  
Shaikh Adnan Abdullah Al Qattan  
Member

  
Shaikh Dr. Nedham M. Saleh Yacoubi  
Member

  
Shaikh Dr. Essam Khalaf Al Onazi  
Member



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

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

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

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh.



Shaikh Dr. A. Latif Mahmood Al Mahmood  
Chairman



Shaikh Mohammed Jaffar Al Juffairi  
Vice Chairman



Shaikh Adnan Abdullah Al Qattan  
Member



Shaikh Dr. Nedham M. Saleh Yacoubi  
Member



Shaikh Dr. Essam Khalaf Al Onazi  
Member



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CR No. 6220

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

### Report on the consolidated financial statements

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

### *Respective responsibilities of board of directors and auditors*

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

### *Basis of opinion*

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

### *Opinion*

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

### Report on other regulatory requirements

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

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

KPMG Fakhro  
Partner Registration No. 100  
12 February 2018

**Bahrain Islamic Bank B.S.C.****CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2017

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

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

 _____ Dr. Esam Abdulla Fakhro Chairman	 _____ Brig. Ebrahim Abdulla Al Mahmood Vice Chairman	 _____ Hassan Amin Jarrar Chief Executive Officer
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## Bahrain Islamic Bank B.S.C.

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

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



Dr. Esam Abdulla Fakhro  
Chairman



Brig. Ebrahim Abdulla Al Mahmood  
Vice Chairman



Hassan Amin Jarrar  
Chief Executive Officer

## Bahrain Islamic Bank B.S.C.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

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

**Bahrain Islamic Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**  
For the year ended 31 December 2017

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

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

## Bahrain Islamic Bank B.S.C.

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

For the year ended 31 December 2017

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

**Bahrain Islamic Bank B.S.C.****CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND**

For the year ended 31 December 2017

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



**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION**

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

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

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

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

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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*

*FAS 30 – Impairment, credit losses and onerous commitments*

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

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

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

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

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

**Expected credit losses (ECL)**

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

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

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

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

##### **Early adoption**

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

##### **b. Statement of Compliance**

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****c. Basis of preparation**

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

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

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

**d. Basis of consolidation**

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

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

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

**e. Cash and cash equivalents**

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

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

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

*Borrowings from financial institutions*

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

**g. Financing assets**

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

**h. Murabaha financing**

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

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

**i. Musharaka financing**

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

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION**

31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****j. Investment securities**

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

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

*Debt type instruments carried at amortised cost*

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

*Equity type instruments carried at fair value through equity*

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

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

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

**k. Measurement principles***Fair value measurement*

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

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

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

*Amortised cost*

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

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

31 December 2017

#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **i. Investment in associates**

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

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

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

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

##### **m. Ijarah Muntahia Bittamleek**

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

##### **n. Investment in real estate**

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

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

##### **o. Property and equipment**

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

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION**

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****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.

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

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

**q. Investment risk reserve**

Investment risk reserves are amounts appropriated out of the income of equity of investment 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.

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

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

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

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

##### *Financial liabilities*

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

##### w. Treasury shares

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

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

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

##### y. Offsetting

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

##### z. Income recognition

##### *Murabaha and Wakala*

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

##### *Musharaka*

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

##### *Sukuk*

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

##### *Placements with financial institutions*

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

##### *Ijarah Muntahia Bittamleek*

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

##### *Dividend income*

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

##### *Fee and commission income*

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

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

31 December 2017

#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### aa. Foreign currencies

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

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

##### bb. Impairment of financial assets

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

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

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

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

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

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

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



## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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.

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

31 December 2017

#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### ee. Customers' current accounts

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

##### ff. Employees' benefits

###### i) Short-term benefits

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

###### ii) Post-employment benefits

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

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

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

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

###### iii) Share based employee incentive scheme

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

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

##### gg. Financial guarantees

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

##### hh. Repossessed assets

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

##### ii. Statutory reserve

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

31 December 2017

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

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

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

	<i>2017</i> <i>BD'000</i>	<i>2016</i> <i>BD'000</i>
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
	<b>34,461</b>	<b>29,443</b>
Mandatory reserve with CBB	35,205	33,765
	<b>69,666</b>	<b>63,208</b>

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

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

**4 PLACEMENTS WITH FINANCIAL INSTITUTIONS**

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

**5 FINANCING ASSETS**

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

**5.1 Murabaha**

	<i>2017</i> <i>BD'000</i>	<i>2016</i> <i>BD'000</i>
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
	<b>522,145</b>	<b>468,610</b>
Qard fund	71	65
<b>Gross receivables</b>	<b>522,216</b>	<b>468,675</b>
Deferred profits	(52,695)	(45,781)
Provision for impairment	(14,020)	(25,977)
	<b>455,501</b>	<b>396,917</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

31 December 2017

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

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

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

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

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

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

**5.2 Musharaka**

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

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

**6 INVESTMENT SECURITIES**

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

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

31 December 2017

## 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)
<b>At 31 December</b>	<b>23,739</b>	<b>26,487</b>

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

	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:

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.

## Bahrain Islamic Bank B.S.C.

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

## 9 IJARAH RENTAL RECEIVABLES

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

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**11 INVESTMENT IN REAL ESTATE**

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

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

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

**12 OTHER ASSETS**

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
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
	<u>11,195</u>	<u>11,793</u>

**13 BORROWINGS FROM FINANCIAL INSTITUTIONS**

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

**14 OTHER LIABILITIES**

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



## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**15 EQUITY OF INVESTMENT ACCOUNTHOLDERS**

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

**15.1 Equity of investment accountholders balances**

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

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

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

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

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

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

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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:

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

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

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

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

## 15.4 Equity of Investment Accountholders Reserves

	2017 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	<u>11,364</u>	<u>7,131</u>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 16 OWNERS' EQUITY

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

	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.

## (iii) Reserves

*Statutory reserve*

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

*General reserve*

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

*Real estate fair value reserve*

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

*Investment fair value reserve*

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

**Bahrain Islamic Bank B.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**16 OWNERS' EQUITY (continued)**

(iv) Additional information on shareholding pattern

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

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

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

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

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

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

Categories:

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

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

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

v) Proposed appropriations

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 17 COMMITMENTS AND CONTINGENT LIABILITIES

***Credit related commitments***

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

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

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

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
Letters of credit and acceptances	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
	<b>129,393</b>	<b>96,787</b>

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

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

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

## 18 CAPITAL ADEQUACY

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

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

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

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**18 CAPITAL ADEQUACY (continued)**

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

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
CET 1 Capital before regulatory adjustments	116,125	111,111
Less: regulatory adjustments	-	-
<b>CET 1 Capital after regulatory adjustments</b>	<b>116,125</b>	<b>111,111</b>
T 2 Capital adjustments	13,253	11,961
<b>Regulatory Capital</b>	<b>129,378</b>	<b>123,072</b>

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

	<b>2017</b>	<b>2016</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Risk weighted exposure:</b>		
Total Credit Risk Weighted Assets	568,646	527,820
Total Market Risk Weighted Assets	10,702	12,226
Total Operational Risk Weighted Assets	86,085	66,722
<b>Total Regulatory Risk Weighted Assets</b>	<b>665,433</b>	<b>606,768</b>
Investment risk reserve (30% only)	353	227
Equalization reserve (30% only)	374	374
<b>Total Adjusted Risk Weighted Exposures</b>	<b>664,706</b>	<b>606,167</b>
<b>Capital Adequacy Ratio</b>	<b>19.46%</b>	<b>20.30%</b>
<b>Tier 1 Capital Adequacy Ratio</b>	<b>17.47%</b>	<b>18.33%</b>
<b>Minimum requirement</b>	<b>12.5%</b>	<b>12.5%</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 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
	<u>40,507</u>	<u>34,881</u>

## 20 INCOME FROM INVESTMENT SECURITIES

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

## 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)
	<u>213</u>	<u>(563)</u>

## 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
	<u>2,740</u>	<u>4,544</u>

## 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
	<u>12,387</u>	<u>10,820</u>

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

The above impairment provision relates to the following:

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

**24.2 Impairment provisions on investments**

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

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

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

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



## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 25 ZAKAH

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

## 26 EARNINGS PER SHARE

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

	2017	2016
Profit for the year in BD'000	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				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
<b>Assets</b>					
Financing assets	-	-	1,688	84	1,772
Investment in associates	-	23,739	-	-	23,739
Other assets	-	-	-	1,060	1,060
<b>Liabilities and Equity of investment accountholders</b>					
Borrowings from financial institutions	38,991	-	-	-	38,991
Customers' current accounts	-	130	662	280	1,072
Other liabilities	-	-	517	-	517
Equity of investment accountholders	47,092	-	7,819	1,499	56,410
	2017				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Income</b>					
Income from financing	-	-	110	-	110
Share of results of associates, net	-	(1,103)	-	-	(1,103)
<b>Return on equity of investment accountholders</b>	(1,469)	-	(139)	-	(1,608)
<b>Expense on borrowings</b>	(750)	-	-	(3)	(753)
<b>Expenses</b>					
Other expenses	-	-	(753)	-	(753)
Staff costs	-	-	(39)	(1,439)	(1,478)

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 27 RELATED PARTY TRANSACTIONS (continued)

	2016				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
<b>Assets</b>					
Financing assets	-	-	1,615	-	1,615
Investment in associates	-	26,487	-	-	26,487
Other assets	-	-	-	402	402
<b>Liabilities and Equity of investment accountholders</b>					
Borrowings from financial institutions	-	-	-	-	-
Customers' current accounts	-	1,719	431	152	2,302
Other liabilities	-	1,568	360	-	1,928
Equity of investment accountholders	65,656	602	1,218	1,142	68,618

	2016				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
<b>Income</b>					
Income from financing	-	-	86	-	86
Share of results of associates, net	-	(437)	-	-	(437)
Return on equity of investment accountholders	(658)	(5)	(15)	(35)	(713)
Expense on placements from financial institutions	(304)	-	-	-	(304)
<b>Expenses</b>					
Other expenses	-	-	(563)	-	(563)
Staff costs	-	-	-	(1,422)	(1,422)

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

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

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

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

#### 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. These risks and the processes to mitigate these risks have not significantly changed from the previous year.

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

##### Risk management objectives

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

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

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

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

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

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

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

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

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

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

##### Risk Measurement and Reporting Systems

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**Credit Risk Mitigation**

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

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

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

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

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

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

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

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

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

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

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 28 RISK MANAGEMENT (continued)

## a) Credit Risk (continued)

## (ii) Risk concentrations of the maximum exposure to credit risk

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

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

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
<b>Geographical region</b>						
Middle East	1,194,057	1,010,463	1,091,639	924,205	129,393	96,787
North America	10,473	5,801	229	83	-	-
Europe	24,117	5,743	13,628	579	-	-
Other	-	-	881	849	-	-
	<b>1,228,647</b>	<b>1,022,007</b>	<b>1,106,377</b>	<b>925,716</b>	<b>129,393</b>	<b>96,787</b>
<b>Industry sector</b>						
Trading and manufacturing	105,018	70,899	19,022	42,443	20,607	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
	<b>1,228,647</b>	<b>1,022,007</b>	<b>1,106,377</b>	<b>925,716</b>	<b>129,393</b>	<b>96,787</b>

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

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

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

## 28 RISK MANAGEMENT (continued)

## a) Credit Risk (continued)

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

	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:						
Less than 30 days	-	-	37,962	16,005	-	53,967
31 to 60 Days	-	-	12,041	1,345	-	13,386
61 to 90 days	-	-	9,460	432	-	9,892
Carrying value	-	-	59,463	17,782	-	77,245
Neither past due nor impaired	12,737	63,805	420,918	119,691	27,682	644,833
Carrying value	12,737	63,805	420,918	119,691	27,682	644,833
Sovereign	37,642	-	525	7,559	82,147	127,873
Carrying value	37,642	-	525	7,559	82,147	127,873
Collective impairment	-	-	(10,141)	(2,293)	-	(12,434)
	50,379	63,805	506,456	160,370	113,283	894,293

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

## b) Liquidity Risk

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

## 28 RISK MANAGEMENT (continued)

## b) Liquidity Risk (continued)

## Maturity profile of Group's assets and liabilities

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

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

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

**Bahrain Islamic Bank B.S.C.**  
**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:

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



## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

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

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

**(i) Profit rate risk**

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

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

**(ii) Equity price risk**

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

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

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

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

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

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

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

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

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

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

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

**iv) Commodity risk**

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

**d) Operational Risk**

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

## Bahrain Islamic Bank B.S.C.

## 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)
<b>Profit / (loss) for the year</b>	<b>(1,710)</b>	<b>9,545</b>	<b>2,306</b>	<b>10,141</b>
<b>Other information</b>				
Segment assets	330,624	455,535	442,488	1,228,647
Segment liabilities, and equity	450,926	517,873	259,848	1,228,647
	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)
<b>Profit / (loss) for the year</b>	<b>9,388</b>	<b>8,386</b>	<b>(9,354)</b>	<b>8,420</b>
<b>Other information</b>				
Segment assets	256,996	452,746	312,265	1,022,007
Segment liabilities, and equity	284,279	512,642	225,086	1,022,007

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

## Bahrain Islamic Bank B.S.C.

## 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:

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

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

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2017

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

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

**32 SHARI'A SUPERVISORY BOARD**

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

**33 SOCIAL RESPONSIBILITY**

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

**34 COMPARATIVE FIGURES**

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

**APPENDIX E -**

**CONSOLIDATED AUDITED FINANCIAL STATEMENTS**

For The Year Ended 31 December 2018

**BAHRAIN ISLAMIC BANK B.S.C.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2018**

Commercial registration	:	9900 (registered with Central Bank of Bahrain as a retail Islamic bank)
Board of directors	:	Dr. Esam Abdulla Fakhro, <i>Chairman</i> Brig. Ebrahim Abdulla Al Mahmood, <i>Vice Chariman</i> Talal Ali Al Zain Khalil Ebrahim Nooruddin Mohammed Ahmed Abdulla (Up to 2 December 2018) Khalid Yousif Abdulrahman Ebrahim Husain Ebrahim Aljassmi Othman Ebrahim Naser Al Askar Muhammad Zarrug Rajab
Office	:	Salam Tower, Diplomatic Area PO Box 5240 Manama, Kingdom of Bahrain Telephone 17 546-111, Telefax 17 535-808
Auditors	:	KPMG Fakhro

## **Board of Directors Report**

In the name of Allah, the Most Beneficent. Prayers and Peace be upon the last Apostle and Messenger, His Comrades and Relatives.

On behalf of the Board of Directors, I am privileged to present the annual report and consolidated financial statements of Bahrain Islamic Bank for 2018. As the Bank's Back to Basics strategy finishes its last year, BisB continues to make significant strides in nearly every aspect of the Bank.

The turbulent events throughout the region I spoke about in 2017 have carried forward deep into 2018. Despite that, the Bank has achieved another year of solid performance with a 12% growth in net profits over 2017. Earnings stood at BD 11.4 million, which translates to earnings per share of 10.83 fils compared to 9.65 fils in 2017.

With strict adherence to a prudent risk appetite, financing assets stood at BD 765.8 million compared to BD 740.7 million in 2017.

Technology was the dominant theme in 2018 and is expected to continue well into the future. BisB continues to invest in technology platforms and to strengthen technical capabilities within the Bank. Our most recent investment was in a much-needed business planning management architecture (BPM), which will enable the Bank to adapt to fast-changing technological trends.

Another critical pillar is our people. Our commitment to invest in Bahraini talent continues unabated as we hone the Bank's succession line in preparation of our future leaders.

We expect 2019 to carry similar challenges. However, I remain optimistic about BisB's future and our ability to adapt to fast regulatory and technological changes. We have come a long way in improving nearly every aspect of the bank's operations but there is always much more to be accomplished.

On behalf of the shareholders, the Directors record 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 express thanks to all Government ministries and authorities – in particular to the Central Bank of Bahrain and the Ministry of Industry, Commerce & Tourism for their invaluable guidance, kind consideration and constant support.



The Directors are grateful for the guidance and counsel of the Bank's Sharia'a Supervisory Board. The committed dedication of BisB's management and staff is also acknowledged, as well as our loyal customers and business partners, for their trust and confidence in Bahrain Islamic Bank.



**Dr. Esam Abdulla Fakhro**  
**Chairman of the Board**

**Sharia'a Supervisory Board report  
For the year ended on 31/12/2018**

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

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

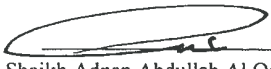
Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

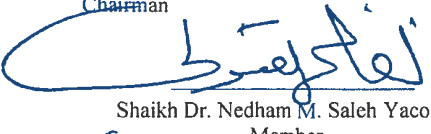
The Sharia'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Sharia perspective for the financial year ending on 31<sup>st</sup> December 2018, in fulfillment to the mandate conferred upon it by BisB's Articles of Association:

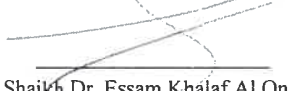
- In coordination with the Sharia Coordination and implementation, the Sharia Supervisory Board has monitored the implementation on the Bank's products and its applicable fees and the relevant policies and procedures, in addition to advising and providing fatwas in regards to the finance agreements up to 31st December 2018 to ensure the Bank's adherence to the provisions and principles of Islamic Sharia'a.
- 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 Plan and 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 12 reports submitted by Internal Sharia Audit Department to the Sharia'a Supervisory Board included results of auditing the files, contracts, executed deals

  
Shaikh Dr. A.Latif Mahmood Al Mahmood  
Chairman

  
Shaikh Mohammed Jaffar Al Juffairi  
Vice Chairman

  
Shaikh Adnan Abdullah Al Qattan  
Member

  
Shaikh Dr. Nedham M. Saleh Yacoubi  
Member

  
Shaikh Dr. Essam.Khalaf Al Onazi  
Member

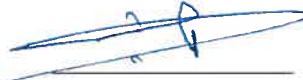
in fulfillment to the Sharia'a Board annual approved audit plan. The Sharia'a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Sharia principles and Fatwas and decisions of the Sharia'a Board.


- The Sharia Board and its Committees held (16) meetings during the year and issued (98) decisions and fatwas, and approved (80) contracts.
- The Sharia Supervisory Board confirms that it has, along with the Sharia Coordination and implementation Department and Internal sharia Audit Department, fulfilled all the CBB's Sharia Supervisory Governance requirements.
- The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2018, 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.

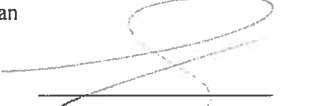
Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh

  
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



KPMG Fakhro  
Audit  
12<sup>th</sup> Floor, Fakhro Tower  
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Kingdom of Bahrain

Telephone +973 17 224807  
Fax +973 17 227443  
Website: www.kpmg.com/bh  
CR No. 6220

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiary (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 Bank.

### Report on other regulatory requirements

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


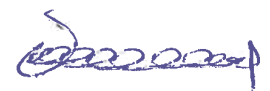

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2016 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro  
Partner Registration No. 100  
24 February 2019

**Bahrain Islamic Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2018


	Note	2018 BD'000	2017 BD'000
<b>ASSETS</b>			
Cash and balances with banks and Central Bank	3	65,437	69,666
Placements with financial institutions	4	137,450	80,845
Financing assets	5	578,953	561,822
Investment securities	6	240,053	258,399
Ijarah Muntahia Bittamleek	8	165,730	164,397
Ijarah rental receivables	8	21,141	14,483
Investment in associates	7	21,643	23,739
Investment in real estate	10	24,284	29,831
Property and equipment	9	13,641	14,270
Other assets	11	11,062	11,195
<b>TOTAL ASSETS</b>		<b>1,279,394</b>	<b>1,228,647</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Placements from financial institutions		114,744	67,872
Placements from non-financial institutions and individuals		7,255	-
Borrowings from financial institutions	12	96,386	101,576
Customers' current accounts		133,244	131,666
Other liabilities	13	24,025	11,507
<b>Total Liabilities</b>		<b>375,654</b>	<b>312,621</b>
<b>Equity of Investment Accountholders</b>	14	<b>785,991</b>	<b>793,756</b>
<b>Owners' Equity</b>			
Share capital	15	106,406	101,339
Treasury shares	15	(892)	(864)
Shares under employee share incentive scheme		(391)	(498)
Share premium		120	98
Reserves		12,506	22,195
<b>Total Owners' Equity</b>		<b>117,749</b>	<b>122,270</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>		<b>1,279,394</b>	<b>1,228,647</b>


The consolidated financial statements were approved by the Board of Directors on 24 February 2019 and signed on its behalf by:

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

**Bahrain Islamic Bank B.S.C.**  
**CONSOLIDATED STATEMENT OF INCOME**  
For the year ended 31 December 2018

	Note	2018 BD'000	2017 BD'000
<b>INCOME</b>			
Income from financing	18	43,110	40,507
Income from investment in Sukuk		10,829	6,808
<b>Total income from jointly financed assets</b>		<b>53,939</b>	<b>47,315</b>
Return on equity of investment accountholders		(41,162)	(36,010)
Group's share as Mudarib		27,223	24,646
Net return on equity of investment accountholders	14.5	(13,939)	(11,364)
<b>Group's share of income from jointly financed assets (both as mudarib and investor)</b>		<b>40,000</b>	<b>35,951</b>
Expense on placements from financial institutions		(2,043)	(1,018)
Expense on placements from non-financial institutions and individuals		(57)	-
Expense on borrowings from financial institutions		(4,034)	(2,032)
Fee and commission income		7,547	7,642
Income from investment securities	19	216	513
Income from investment in real estate	20	(556)	213
Share of results of associates, net	7	86	(1,103)
Other income	21	4,372	2,740
<b>Total income</b>		<b>45,531</b>	<b>42,906</b>
<b>EXPENSES</b>			
Staff costs		12,588	12,611
Depreciation	9	1,473	1,570
Other expenses	22	11,194	12,387
<b>Total expenses</b>		<b>25,255</b>	<b>26,568</b>
<b>Profit before impairment allowances</b>		<b>20,276</b>	<b>16,338</b>
Impairment allowance, net	23	(8,895)	(6,197)
<b>PROFIT FOR THE YEAR</b>		<b>11,381</b>	<b>10,141</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (fils)</b>	25	<b>10.83</b>	<b>9.65</b>

  
Dr. Esam Abdulla Fakhro  
Chairman

  
Brig. Ebrahim Abdulla Al Mahmood  
Vice Chairman

  
Hassan Amin Jarrar  
Chief Executive Officer

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

## Bahrain Islamic Bank B.S.C.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 BD'000	2017 BD'000
<b>OPERATING ACTIVITIES</b>			
Profit for the year		11,381	10,141
Adjustments for non-cash items:			
Depreciation	9	1,473	1,570
Impairment allowance, net	23	8,895	6,197
Loss on sale of investment in associates		-	83
Impairment on investment in real estate	20	204	119
Loss on sale of investment in real estate	20	531	39
Gain on sale of investment securities		-	(3)
Gain on foreign exchange revaluation		29	-
Recoveries from written off accounts		(3,472)	-
Share of results of associates, net	7	(86)	1,103
<b>Operating profit before changes in operating assets and liabilities</b>		<b>18,955</b>	<b>19,249</b>
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		100	(1,440)
Financing assets		(34,485)	(57,605)
Ijarah Muntahia Bittamleek		(8,359)	(18,808)
Other assets		(693)	739
Customers' current accounts		1,578	(800)
Other liabilities		11,729	(3,596)
Placements from financial institutions		44,719	(24,582)
Placements from non-financial institutions and individuals		7,255	-
Equity of investment accountholders		(7,765)	139,440
<b>Net cash from operating activities</b>		<b>33,034</b>	<b>52,597</b>
<b>INVESTING ACTIVITIES</b>			
Capitalized expenditure of investment in real estate		-	(28)
Disposal of investment in real estate		3,480	314
Disposal of investment in associates		-	1,348
Purchase of investment securities		(75,590)	(119,546)
Purchase of property and equipment		(845)	(1,193)
Disposal of property and equipment		1	-
Proceeds from disposal of investment securities		95,504	3,538
<b>Net cash from / (used in) investing activities</b>		<b>22,550</b>	<b>(115,567)</b>
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury shares		-	(301)
(Repayment) / drawdown of borrowings from financial institutions		(5,190)	90,156
Dividends paid		(72)	(4,827)
<b>Net cash (used in) / from financing activities</b>		<b>(5,262)</b>	<b>85,028</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>50,322</b>	<b>22,058</b>
Cash and cash equivalents at 1 January		112,794	90,736
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>163,116</b>	<b>112,794</b>
Cash and cash equivalents comprise of:			
Cash on hand	3	15,318	13,042
Balances with CBB, excluding mandatory reserve deposits	3	242	3,654
Balances with banks and other financial institutions excluding restricted balances	3	10,106	15,253
Placements with financial institutions with original maturities less than 90 days	4	137,450	80,845
		<b>163,116</b>	<b>112,794</b>

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

## Bahrain Islamic Bank B.S.C. CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2018

	Shares under employee		Reserves				Total owners' equity BD'000			
	Share capital BD'000	Treasury shares BD'000	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
Balance at 1 January 2018	101,339	(864)	(498)	98	2,977	6,145	745	12,328	22,195	122,270
Impact of adopting FAS 30 (note 3a)	-	-	-	-	-	-	-	(13,943)	(13,943)	(13,943)
Impact of adopting FAS 30 by associate (note 3a)	-	-	-	-	-	-	-	(350)	(350)	(350)
<b>Balance at 1 January 2018 (Restated)</b>	<b>101,339</b>	<b>(864)</b>	<b>(498)</b>	<b>98</b>	<b>2,977</b>	<b>6,145</b>	<b>745</b>	<b>(1,965)</b>	<b>7,902</b>	<b>107,977</b>
<b>Profit for the year</b>	-	-	-	-	-	-	-	11,381	11,381	11,381
Bonus shares declared for 2017	5,067	(28)	(34)	(35)	-	-	-	(4,970)	(4,970)	-
Transfer to zakah fund	-	-	-	-	-	-	-	(265)	(265)	(265)
Transfer to charity fund	-	-	-	-	-	-	-	(200)	(200)	(200)
Shares allocated during the year	-	-	141	57	-	-	-	-	-	198
Net movement in investment securities fair value reserve	-	-	-	-	-	-	(27)	-	(27)	(27)
Net movement in real estate fair value reserve	-	-	-	-	-	(1,315)	-	-	(1,315)	(1,315)
Transfer to statutory reserve	-	-	-	-	1,138	-	-	(1,138)	-	-
<b>Balance at 31 December 2018</b>	<b>106,406</b>	<b>(892)</b>	<b>(391)</b>	<b>120</b>	<b>4,115</b>	<b>4,830</b>	<b>718</b>	<b>2,843</b>	<b>12,506</b>	<b>117,749</b>
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)
Transfer to zakah fund	-	-	-	-	-	-	-	(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 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

The attached notes 1 to 33 form an integral part of these consolidated financial statements.



## Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH  
QARD FUND

For the year ended 31 December 2018

	<i>Qard Hasan receivables BD'000</i>	<i>Funds available for Qard Hasan BD'000</i>	<i>Total BD'000</i>
<b>Balance at 1 January 2018</b>	<u>71</u>	<u>57</u>	<u>128</u>
Uses of Qard fund			
Marriage	10	(10)	-
Others (Waqf)	26	(26)	-
<b>Total uses during the year</b>	<u>36</u>	<u>(36)</u>	<u>-</u>
Repayments	(36)	36	-
<b>Balance at 31 December 2018</b>	<u><u>71</u></u>	<u><u>57</u></u>	<u><u>128</u></u>
Balance at 1 January 2017	<u>65</u>	<u>63</u>	<u>128</u>
Uses of Qard fund			
Marriage	13	(13)	-
Others (Waqf)	24	(24)	-
<b>Total uses during the year</b>	<u>37</u>	<u>(37)</u>	<u>-</u>
Repayments	(31)	31	-
<b>Balance at 31 December 2017</b>	<u><u>71</u></u>	<u><u>57</u></u>	<u><u>128</u></u>
		<b>2018</b>	<b>2017</b>
		<b>BD'000</b>	<b>BD'000</b>
<b>Sources of Qard fund</b>			
Contribution by the Bank		125	125
Donation		3	3
		<u><u>128</u></u>	<u><u>128</u></u>

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

**Bahrain Islamic Bank B.S.C.****CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND**

For the year ended 31 December 2018

	<b>2018</b> <b>BD'000</b>	<b>2017</b> <b>BD'000</b>
<b>Sources of zakah and charity funds</b>		
Undistributed zakah and charity funds at the beginning of the year	<b>259</b>	222
Non-Islamic income / late payment fee	<b>374</b>	510
Contributions by the Bank for zakah	<b>265</b>	137
Contributions by the Bank for donations	<b>200</b>	-
<b>Total sources of zakah and charity funds during the year</b>	<b>1,098</b>	869
<b>Uses of zakah and charity funds</b>		
Philanthropic societies	<b>366</b>	253
Aid to needy families	<b>381</b>	357
Islamic events	<b>37</b>	-
<b>Total uses of funds during the year</b>	<b>784</b>	610
<b>Undistributed zakah and charity funds at the end of the year</b>	<b>314</b>	259

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**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 nine branches (2017: eight), 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 24 February 2019.

**a. 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.bb.

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.

**b. Statement of Compliance**

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

**2 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous years except for changes arising from adoption of FAS 30 as set out below.

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

*New standards, amendments, and interpretations issued and effective:*

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 2018 that would be expected to have a material impact on the Group.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****a. New standards, amendments, and interpretations (continued)***New standards, amendments and interpretations issued but not yet effective**Early adoption of FAS 30**FAS 30 – Impairment, credit losses and onerous commitments*

AAOIFI has issued FAS 30 Impairment, credit losses and onerous commitments with effective date of 1 January 2020 with early adoption permitted. FAS 30 replaces FAS 11 Provisions and reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deals with impairment. The Group early adopted the standard as of 1 January 2018 as mandated by CBB. 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.

**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 exposures 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 instruments for the purpose of measuring ECL.

*Changes in Accounting Policies*

The key changes to the Group’s accounting policies resulting from the adoption of FAS 30 are summarised in note 2a (i). As permitted by the transitional provisions of FAS 30, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of exposures subject to credit risk as at the date of transition where recognized in the opening balance of retained earnings at 1 January 2018. Since the comparative financial information has not been restated, the accounting policies in respect of these items for comparative periods are based on respective standards as disclosed in the audited financial statements as of and for the year ended 31 December 2017.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****a. New standards, amendments, and interpretations (continued)***(i) Impact of adopting FAS 30*

Disclosures of FAS 30 transition impact is set out below:

The following table reconciles the carrying amounts of exposures subject to credit risk under FAS 11 to the carrying amounts under FAS 30 as at 1 January 2018:

	<i>Original carrying amount under FAS 11</i>	<i>Re- measure ment*</i>	<i>New carrying amount under FAS 30</i>
	<b>BD'000</b>		
Cash and balances with banks and Central Bank	69,666	-	69,666
Placements with financial institutions	80,845	(3)	80,842
Financing Assets - net	561,822	(12,031)	549,791
Investment in sukuk	227,906	(96)	227,810
Ijarah Muntahia Bittamleek & Ijarah rental receivables	178,880	(1,142)	177,738
Other receivables	1,991	(60)	1,931
Commitments	148,540	(611)	147,929
	<b>1,269,650</b>	<b>(13,943)</b>	<b>1,255,707</b>

\*Re-measurement is due to increase in impairment allowance due to change from incurred to expected credit loss (ECL).

The following table shows the carrying amounts of exposures subject to credit risk as of 1 January 2018 by stage:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<b>BD'000</b>			
Cash and balances with banks and Central Bank	69,666	-	-	69,666
Placements with financial institutions	80,842	-	-	80,842
Financing Assets - net	441,746	96,007	12,038	549,791
Investment in sukuk	226,741	-	1,069	227,810
Ijarah Muntahia Bittamleek & Ijarah rental receivables	154,108	9,914	13,716	177,738
Other receivables	-	1,931	-	1,931
Commitments	143,416	4,506	7	147,929
	<b>1,116,519</b>	<b>112,358</b>	<b>26,830</b>	<b>1,255,707</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****a. New standards, amendments, and interpretations (continued)***(i) Impact of adopting FAS 30 (continued)*

The following table reconciles the impairment allowance recorded under FAS 11 to that of FAS 30 as at 1 January 2018:

	31 December 2017 (FAS 11)	Re- measure- ment	1 January 2018 (FAS 30)
	BD'000		
Placements with financial institutions	-	3	3
Financing assets	15,167	12,031	27,198
Investment in sukuk	11,481	96	11,577
Ijarah Muntahia Bittamleek & Ijarah rental receivables	13,175	1,142	14,317
Investment in associates	2,830	-	2,830
Investment in equity and funds	8,638	-	8,638
Other receivables	-	60	60
Commitments*	-	611	611
	<b>51,291</b>	<b>13,943</b>	<b>65,234</b>

\* Disclosed as part of other liabilities.

*(ii) Impact on owners equity*

	<u>Owners equity</u>
	<u>BD'000</u>
Balance as at 31 December 2017 (as previously reported)	122,270
Recognition of expected credit losses under FAS 30	(13,943)
Impact of adopting FAS 30 by associate	(350)
<b>Opening balance as at 1 January 2018 (restated)</b>	<b><u>107,977</u></b>

**b. Basis of consolidation**

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

The financial statements of the subsidiaries are prepared for the same reporting year as the Group, 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.

**c. 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.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****d. Placements with and borrowings from financial institutions***Placements with financial institutions*

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

*Borrowings from financial institutions*

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

**e. 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.

**f. Murabaha financing**

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

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

**g. 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.

**h. Investment securities**

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

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

*Debt type instruments carried at amortised cost*

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

*Equity type instruments carried at fair value through equity*

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

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

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****i. 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 Group 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.

**j. 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.

**k. 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 income statement.



**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****I. 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.

**m. 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

**n. Equity of investment accountholders**

Equity of investment account holders are funds held by the Group in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds 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. The Group 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 Group's share of income as a Mudarib. The allocation of income is determined by the management of the Group 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 Group 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 Group 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 Group 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.

**o. 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.

**p. 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.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****q. 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.

**r. 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.

**s. Dividends and board remuneration**

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

**t. 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.

**u. 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.

**v. 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.

**w. 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.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****x. 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 Group's share in Musharaka financing transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the Musharaka agreement.

*Sukuk*

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

*Placements with financial institutions*

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

*Ijarah Muntahia Bittamleek*

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

*Dividend income*

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

*Fee and commission income*

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

**y. 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.

**z. Impairment of exposures subject to credit risk****(a) Policy applicable from 1 January 2018**

The Group recognizes loss allowances based ECL on the following:

- (i) Bank balances and placements with banks;
- (ii) Financing assets;
- (iii) Ijarah muntahia bittamleek & rental receivables;
- (iv) Investment in Sukuk - debt type securities at amortised cost;
- (v) Financial guarantee contracts issued; and
- (vi) Commitments to finance.

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### z. Impairment of exposures subject to credit risk (continued)

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

- (i) Debt-type securities that are determined to have low credit risk at the reporting date; and
- (ii) Other debt-type securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

The Group assumes that the credit risk on an exposure subject to credit risk has increased significantly if it is more than 30 days past due.

The Group considers an exposures subject to credit risk to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security, if any is held; or
- the financial asset is more than 90 days past due

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

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

##### **Stage 1: 12-months ECL**

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

##### **Stage 2: Lifetime ECL - not credit impaired**

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

##### **Stage 3: Lifetime ECL - credit impaired**

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

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### z. Impairment of exposures subject to credit risk (continued)

###### ii) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- (i) Exposures subject to credit risk that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- (ii) Exposures subject to credit risk that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- (iii) Undrawn commitments to finance: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- (iv) Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

###### iii) Restructured exposures

If the terms of an exposures subject to credit risk are renegotiated or modified or an existing exposures subject to credit risk is replaced with a new one due to financial difficulties of the borrower, the exposures subject to credit risk should be derecognized and ECL is calculated using the cash shortfalls from the existing exposures subject to credit risk that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing exposures subject to credit risk.

###### iv) Credit-impaired exposures

At each reporting date, the Group assesses whether exposures subject to credit risk are credit-impaired. An exposure subject to credit risk is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the exposures have occurred.

Evidence that an exposure subject to credit risk is credit-impaired includes the following observable data:

- (i) significant financial difficulty of the borrower or issuer;
- (ii) a breach of contract such as a default;
- (iii) the restructuring of a financing facility by the Group on terms that the Group would not consider
- (iv) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

###### v) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as a deduction from gross carrying amount of exposures subject to credit risk.

###### vi) Write-off

Exposures subject to credit risk are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****z. Impairment of exposures subject to credit risk (continued)****(b) Policy applicable before 1 January 2018***Impairment of financial assets at amortized cost*

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.

**aa. Equity investments classified at Fair Value Through Equity (FVTE) - Applicable to 2017 and 2018**

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.

**bb. 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:

**(i) Applicable from 1 January 2018:***Impairment of exposures subject to credit risk*

- Establishing the criteria for determining whether credit risk on exposures subject to credit risk has increased significantly since initial recognition, determining methodology for incorporating forward looking information into measurement of ECL and selection and approval of models used to measure ECL is set out in Note 2(z) and Note 28.
- Impairment on Ijara rental receivables: key assumptions used in estimating recoverable cash flows is set out in Note 2 (z).
- Determining inputs into ECL measurement model including incorporation of forward looking information is set out in Note 2 (z) and Note 28.

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### bb. Use of estimates and judgements in preparation of the consolidated financial statements (continued)

###### (ii) Applicable before 1 January 2018:

###### *Impairment of financing assets*

Financing assets are evaluated for impairment on a basis described in accounting policy, [refer to note 2.z]. 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.

###### (iii) Applicable for 2017 and 2018:

###### *Going concern*

The Group'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.h].

###### *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 Group 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.

##### cc. 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.

##### dd. Customers' current accounts

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

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****ee. 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 Group 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 Group also operates a voluntary employee saving scheme under which the Group 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 Group. The scheme is in the nature of defined contribution scheme and contributions by the Group 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.

**ff. 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.

**gg. 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'.

**hh. 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.

**ii. URIA protection scheme**

Investment accounts held within the Group'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.



## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Cash on hand	<b>15,318</b>	13,042
Balances with CBB, excluding mandatory reserve deposits	<b>242</b>	3,654
Balances with banks and other financial institutions	<b>14,772</b>	17,765
	<b>30,332</b>	34,461
Mandatory reserve with CBB	<b>35,105</b>	35,205
	<b>65,437</b>	69,666

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 4,666 thousand (2017: BD 2,512 thousand) which is not available for use in the day-to-day operations.

**4 PLACEMENTS WITH FINANCIAL INSTITUTIONS**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Commodity Murabaha	<b>54,975</b>	53,519
Deferred profits	<b>(6)</b>	(5)
	<b>54,969</b>	53,514
Wakala	<b>82,486</b>	27,331
	<b>137,455</b>	80,845
Impairment allowance	<b>(5)</b>	-
	<b>137,450</b>	80,845

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**5 FINANCING ASSETS**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Murabaha (note 5.1)	481,612	455,501
Musharaka (note 5.2)	97,341	106,321
	<b>578,953</b>	<b>561,822</b>

**5.1 Murabaha**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Tasheel	217,622	206,855
Tawarooq	214,778	195,474
Altamweel Almaren	82,128	64,912
Letters of credit refinance	32,819	27,229
Motor vehicles Murabaha	7,858	9,625
Credit cards	18,596	17,992
Others	46	58
	<b>573,847</b>	<b>522,145</b>
Qard fund	71	71
<b>Gross receivables</b>	<b>573,918</b>	<b>522,216</b>
Deferred profits	<b>(65,253)</b>	<b>(52,695)</b>
Impairment allowance	<b>(27,053)</b>	<b>(14,020)</b>
	<b>481,612</b>	<b>455,501</b>

Non-performing Murabaha financing outstanding as of 31 December 2018 amounted to BD 71,265 thousand (2017: BD 34,436 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:

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Commercial	120,762	95,128
Financial institutions	26,310	32,693
Others including retail	361,593	341,700
	<b>508,665</b>	<b>469,521</b>

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

**5.2 Musharaka**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Musharaka in real estate	100,127	107,468
Provision for impairment	<b>(2,786)</b>	<b>(1,147)</b>
	<b>97,341</b>	<b>106,321</b>

Non-performing Musharaka financing outstanding as of 31 December 2018 amounted to BD 4,920 thousand (2017: BD 3,678 thousand).

**Bahrain Islamic Bank B.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 December 2018

**5 FINANCING ASSETS (continued)**

**5.3 The movement on impairment allowances is as follows:**

<b>2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
At 1 January 2018	2,367	9,486	15,345	27,198
Net movement between stages	1,302	(4,304)	3,002	-
Net charge for the year	(1,512)	(2,036)	10,079	6,531
Write-backs	-	-	(784)	(784)
Write-off	-	-	(3,106)	(3,106)
<b>At 31 December 2018</b>	<b>2,157</b>	<b>3,146</b>	<b>24,536</b>	<b>29,839</b>
<b>2017</b>		<i>Specific</i>	<i>Collective</i>	<i>Total</i>
At 1 January 2017		16,560	10,141	26,701
Net movement between stages		-	-	-
Net charge for the year		6,254	(1,092)	5,162
Write-backs		(3,489)	-	(3,489)
Write-off		(13,207)	-	(13,207)
<b>At 31 December 2017</b>		<b>6,118</b>	<b>9,049</b>	<b>15,167</b>

**6 INVESTMENT SECURITIES**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>a. Debt type instruments*</b>		
<i>Quoted Sukuk - carried at amortised cost</i>		
Gross balance at beginning of the year	176,806	89,706
Acquisitions	41,891	89,474
Disposals and redemptions	(57,970)	(2,374)
<b>Gross balance at the end of the year</b>	<b>160,727</b>	<b>176,806</b>
Impairment allowance	(23)	-
<b>Net balance at the end of the year</b>	<b>160,704</b>	<b>176,806</b>
<i>Unquoted Sukuk - carried at amortised cost</i>		
Gross balance at beginning of the year	62,581	32,683
Acquisitions	33,699	30,072
Disposals and redemptions	(37,534)	(223)
Foreign currency translation changes	(21)	49
<b>Gross balance at the end of the year</b>	<b>58,725</b>	<b>62,581</b>
Impairment allowance	(12,196)	(11,481)
<b>Net balance at the end of the year</b>	<b>46,529</b>	<b>51,100</b>
<b>b. Equity type instruments</b>		
<i>Quoted shares - at fair value through equity</i>		
Gross balance	-	2,392
Impairment allowance	-	(1,704)
Disposals	-	(688)
<b>Net balance at the end of the year</b>	<b>-</b>	<b>-</b>
<i>Unquoted shares - at cost less impairment</i>		
Gross balance	28,436	24,963
Impairment allowance	(9,784)	(8,638)
<b>Net balance at the end of the year</b>	<b>18,652</b>	<b>16,325</b>
<i>Unquoted managed funds - at cost less impairment</i>		
Gross balance	14,168	14,168
Impairment allowance	-	-
<b>Net balance at the end of the year</b>	<b>14,168</b>	<b>14,168</b>
<b>Total net investment securities</b>	<b>240,053</b>	<b>258,399</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**6 INVESTMENT SECURITIES (continued)**

\* As of 31 December 2018, debt type instruments includes sukuk of BD 134,895 thousand (2017: BD 25,057 thousand) pledged against borrowings from financial institutions of BD 96,386 thousand (2017: BD 63,488 thousand). (note 12)

The movement on impairment allowances on debt type instruments (Sukuk) is as follows:

<b>2018</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
At 1 January 2018	96	-	11,481	11,577
Net movement between stages	-	-	-	-
Net charge for the year	(44)	-	707	663
Recoveries / write-backs	-	-	-	-
Write-off	-	-	-	-
Foreign exchange movement	-	-	(21)	(21)
<b>At 31 December 2018</b>	<b>52</b>	<b>-</b>	<b>12,167</b>	<b>12,219</b>

<b>2017</b>	<b>Specific</b>	<b>Collective</b>	<b>Total</b>
At 1 January 2017	9,105	-	9,105
Net movement between stages	-	-	-
Net charge for the year	2,327	-	2,327
Recoveries	-	-	-
Write-off	-	-	-
Foreign exchange movement	49	-	49
<b>At 31 December 2017</b>	<b>11,481</b>	<b>-</b>	<b>11,481</b>

During the year impairment of BD 1,147 thousand (2017: BD 1,013 thousand) was provided on equity investments.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 7 INVESTMENT IN ASSOCIATES

	2018 BD'000	2017 BD'000
At 1 January	23,739	26,487
Share of results of associates, net	86	(1,103)
Share of changes in investee's equity	(27)	17
Disposals	-	(1,431)
Impact of adopting FAS 30	(350)	-
Foreign currency translation changes	(29)	89
Impairment allowance	(1,776)	(320)
<b>At 31 December</b>	<b>21,643</b>	<b>23,739</b>

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

	2018 BD'000	2017 BD'000
Total assets	196,652	200,373
Total liabilities	77,726	80,925
Total revenues	4,508	5,086
Total net loss	(1,373)	(810)

Investment in associates comprise of:

Name of associate	Ownership %	Country of incorporation	Nature of business
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.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 8 IJARAH MUNTAHIA BITTAMLEEK

	2018				2017			
	Properties BD'000	Aviation related assets BD'000	Others BD'000	Total BD'000	Properties BD'000	Aviation related assets BD'000	Others BD'000	Total BD'000
<b>Cost:</b>								
At 1 January	204,063	7,540	-	211,603	178,374	7,540	2,503	188,417
Additions	41,541	-	-	41,541	36,238	-	-	36,238
Settlements / adjustments	(28,192)	-	-	(28,192)	(10,549)	-	(2,503)	(13,052)
<b>At 31 December</b>	<b>217,412</b>	<b>7,540</b>	<b>-</b>	<b>224,952</b>	<b>204,063</b>	<b>7,540</b>	<b>-</b>	<b>211,603</b>
<b>Accumulated depreciation:</b>								
At 1 January	46,093	1,113	-	47,206	33,936	226	2,503	36,665
Charge for the year	20,931	887	-	21,818	17,014	887	-	17,901
Settlements / adjustments	(9,802)	-	-	(9,802)	(4,857)	-	(2,503)	(7,360)
<b>At 31 December</b>	<b>57,222</b>	<b>2,000</b>	<b>-</b>	<b>59,222</b>	<b>46,093</b>	<b>1,113</b>	<b>-</b>	<b>47,206</b>
<b>Net Book Value</b>	<b>160,190</b>	<b>5,540</b>	<b>-</b>	<b>165,730</b>	<b>157,970</b>	<b>6,427</b>	<b>-</b>	<b>164,397</b>

Ijarah Muntahia Bittamleek and Ijarah rental receivable of BD 200,414 thousand (2017: BD 192,055 thousand) is net of impairment allowance of BD 13,543 thousand (2017: BD 13,175 thousand) refer note 27 (a). During the year an impairment release of BD 774 thousand (2017: charge of BD 299 thousand) refer note 23.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 9 PROPERTY AND EQUIPMENT

	2018						
	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
<b>Cost:</b>							
At 1 January	5,521	7,651	3,837	11,519	890	569	29,987
Additions / Transfers	-	-	401	817	10	(383)	845
Disposals	-	-	(74)	(24)	(6)	-	(104)
<b>At 31 December</b>	<b>5,521</b>	<b>7,651</b>	<b>4,164</b>	<b>12,312</b>	<b>894</b>	<b>186</b>	<b>30,728</b>
<b>Depreciation:</b>							
At 1 January	-	2,223	3,404	9,287	803	-	15,717
Charge for the year	-	260	217	946	50	-	1,473
Relating to disposed assets	-	-	(74)	(23)	(6)	-	(103)
<b>At 31 December</b>	<b>-</b>	<b>2,483</b>	<b>3,547</b>	<b>10,210</b>	<b>847</b>	<b>-</b>	<b>17,087</b>
<b>Net Book Value</b>	<b>5,521</b>	<b>5,168</b>	<b>617</b>	<b>2,102</b>	<b>47</b>	<b>186</b>	<b>13,641</b>
	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
<b>Cost:</b>							
At 1 January	5,521	7,651	3,814	10,367	883	558	28,794
Additions	-	-	23	1,152	7	11	1,193
At 31 December	5,521	7,651	3,837	11,519	890	569	29,987
<b>Depreciation:</b>							
At 1 January	-	1,962	3,144	8,298	743	-	14,147
Charge for the year	-	261	260	989	60	-	1,570
At 31 December	-	2,223	3,404	9,287	803	-	15,717
<b>Net Book Value</b>	<b>5,521</b>	<b>5,428</b>	<b>433</b>	<b>2,232</b>	<b>87</b>	<b>569</b>	<b>14,270</b>

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**10 INVESTMENT IN REAL ESTATE**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Land	23,966	27,796
Buildings	318	2,035
	<b>24,284</b>	<b>29,831</b>
	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Movement in investment in real estate:		
At 1 January	29,831	29,510
Capitalized expenditure	-	28
Disposal	(4,028)	(372)
Fair value changes	(1,519)	665
<b>At 31 December</b>	<b>24,284</b>	<b>29,831</b>

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.

**11 OTHER ASSETS**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Repossessed assets*	5,103	5,689
Receivables**	3,224	2,475
Staff advances	1,717	1,608
Prepaid expenses	803	1,138
Other	215	285
	<b>11,062</b>	<b>11,195</b>

\*Repossessed assets are net of impairment allowance of BD 585 thousand (2017: Nil thousand).

\*\*Impairment on receivables includes Stage 1 BD 5 thousand, Stage 2 BD 127 thousand (2017: collective provision of BD Nil thousand) and Stage 3 BD 101 thousand (2017: specific provision of BD Nil thousand). During the year impairment charge of BD 173 thousand was provided (2017: Nil) representing BD 5 thousand (stage 1), BD 67 thousand (stage 2) and BD 101 thousand (stage 3).

**12 BORROWINGS FROM FINANCIAL INSTITUTIONS**

Represents term murabaha facilities of BD 96,386 thousand (2017: BD 101,576 thousand) secured by pledge over sukuk of BD 134,895 thousand (2017: BD 25,057 thousand) maturing within 9 months from year end. The average rate of borrowings is 3.49%. (note 6)

**13 OTHER LIABILITIES**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Managers' cheques	3,560	1,833
Payable to vendors	3,874	708
Accrued expenses	3,551	3,618
Life insurance (Takaful) fees payable	845	999
Dividends payable	928	1,000
Zakah and charity fund	314	259
Other	10,953	3,090
	<b>24,025</b>	<b>11,507</b>



**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**14 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.

**14.1 Equity of investment accountholders balances**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Type of Equity of Investment Accountholders</b>		
Customer investment accounts		
Balances on demand	<b>296,140</b>	303,345
Contractual basis	<b>489,851</b>	490,411
	<b>785,991</b>	793,756

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

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

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Asset</b>		
Cash and balances with banks and Central Bank	<b>44,993</b>	30,334
Financing assets, net	<b>440,882</b>	429,390
Ijarah Muntahia Bittamleek and rental receivables, net	<b>142,304</b>	131,545
Investment securities, net	<b>157,812</b>	189,478
Investment in real estate	-	5,329
Other assets	-	7,680
	<b>785,991</b>	793,756

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 allocated BD 42,351 thousand of ECL (2017: Collective provision of BD 3,778 thousand) to the IAH.

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)****14.3 Profit distribution by account type**

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

Account type	2018			2017		
	Utilization	Mudarib Share	Profit to IAH	Utilization	Mudarib Share	Profit to IAH
Tejoori	90%	97.49%	2.51%	90%	97.39%	2.61%
Savings	90%	97.47%	2.53%	90%	97.39%	2.61%
Vevo	90%	97.41%	2.59%	90%	97.39%	2.61%
IQRA	100%	72.99%	27.01%	100%	71.75%	28.25%
Time deposits	100%	45.50%	54.50%	100%	43.56%	56.44%

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.

**14.4 Equity of Investment Accountholders Reserves**

	2018 BD'000	Movement BD'000	2017 BD'000
Profit equalisation reserve	1,245	-	1,245
Investment risk reserve	1,177	-	1,177

**14.5 Return on equity of investment accountholders**

	2018 BD'000	2017 BD'000
Gross return to equity of investment accountholders	41,162	36,430
Group's share as a Mudarib	(27,223)	(24,646)
Allocation to profit equalization reserve	-	-
Allocation to investment risk reserve	-	(420)
Net return on equity of investment accountholders	<b>13,939</b>	<b>11,364</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 15 OWNERS' EQUITY

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
a. Share capital		
<i>i. Authorised</i>		
2,000,000,000 shares (2017: 2,000,000,000 shares) of BD 0.100 each	<b>200,000</b>	200,000
<i>ii. Issued and fully paid up</i>		
1,064,058,587 shares (2017: 1,013,389,130 shares) of BD 0.100 each	<b>106,406</b>	101,339
b. Treasury Shares	<b>2018</b>	<b>2017</b>
	<b>Number of</b>	<b>BD'000</b>
	<b>Shares</b>	<b>BD'000</b>
At 31 December	<b>5,855,358</b>	<b>864</b>

**2018**  
**BD'000**

Cost of treasury shares	<b>892</b>
Market value of treasury shares	<b>761</b>

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*

During the year the Bank has appropriated BD 1,138 thousand (2017: 1,014 thousand) to the statutory reserve representing 10% of the profit for the year BD 11,381 thousand (2017: 10,141 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.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**15 OWNERS' EQUITY (continued)**

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:

Names	Nationality	2018		2017	
		Number of shares	% holding	Number of shares	% holding
National Bank of Bahrain	Bahraini	309,206,266	29.06%	294,482,159	29.06%
Social Insurance Organisation	Bahraini	154,604,585	14.53%	147,242,463	14.53%
Social Insurance Organisation - Military Pension Fund	Bahraini	154,604,587	14.53%	147,242,464	14.53%
Islamic Development Bank	Saudi	153,423,081	14.42%	146,117,221	14.42%
General Council of Kuwaiti Awqaf	Kuwaiti	76,366,321	7.18%	72,729,830	7.18%

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:

	2018			2017		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	137,353,127	3,244	12.91%	145,805,613	3,232	14.38%
1% and less than 5%	78,854,583	4	7.41%	59,769,380	3	5.90%
5% and less than 10%	76,273,875	1	7.17%	72,729,830	1	7.18%
10% and less than 50%	771,577,002	4	72.51%	735,084,307	4	72.54%
	<b>1,064,058,587</b>	<b>3,253</b>	<b>100.00%</b>	<b>1,013,389,130</b>	<b>3,240</b>	<b>100.00%</b>

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

**Categories:**

	2018		2017	
	No. of shares	No. of directors	No. of shares	No. of directors
Less than 1%	487,535	4	464,320	4

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):

	2018		2017	
	No. of shares	Percentage of Shareholding	No. of shares	Percentage of Shareholding
Directors	487,535	0.046%	464,320	0.046%
Shari'a supervisory members	190,817	0.018%	181,731	0.018%
Senior management	1,202,534	0.113%	777,167	0.077%
	<b>1,880,886</b>	<b>0.177%</b>	<b>1,423,218</b>	<b>0.141%</b>

e. Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 179 thousand in 2018 (2017: BD 265 thousand), charitable donations of BD 250 thousand in 2018 (2017: BD 200 thousand) and dividends amounting to BD Nil thousand (2017: bonus shares as dividends amounting to BD 5,066 thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 16 COMMITMENTS AND CONTINGENT LIABILITIES

##### *Credit related commitments*

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

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

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

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Letters of credit and acceptances	<b>6,166</b>	5,470
Guarantees	<b>66,316</b>	74,159
Credit cards	<b>34,048</b>	30,508
Altamweel Almaren	<b>15,405</b>	19,033
Operating lease commitments *	<b>327</b>	223
Commitments to finance	<b>35,422</b>	19,147
	<b>157,684</b>	148,540

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

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

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Within one year	<b>182</b>	170
After one year but not more than five years	<b>145</b>	53
	<b>327</b>	223

#### 17 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.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**17 CAPITAL ADEQUACY (continued)**

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:

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
CET 1 Capital before regulatory adjustments	<b>112,919</b>	116,125
Less: regulatory adjustments	-	-
<b>CET 1 Capital after regulatory adjustments</b>	<b>112,919</b>	116,125
T 2 Capital adjustments	<b>12,559</b>	13,283
<b>Regulatory Capital</b>	<b>125,478</b>	129,408

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:

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Risk weighted exposure:</b>		
Total Credit Risk Weighted Assets	<b>618,293</b>	571,069
Total Market Risk Weighted Assets	<b>11,891</b>	10,702
Total Operational Risk Weighted Assets	<b>103,812</b>	86,085
<b>Total Regulatory Risk Weighted Assets</b>	<b>733,996</b>	667,856
Investment risk reserve (30% only)	<b>353</b>	353
Profit equalization reserve (30% only)	<b>374</b>	374
<b>Total Adjusted Risk Weighted Exposures</b>	<b>733,269</b>	667,129
<b>Capital Adequacy Ratio</b>	<b>17.11%</b>	19.40%
<b>Tier 1 Capital Adequacy Ratio</b>	<b>15.40%</b>	17.41%
Minimum requirement	<b>12.5%</b>	12.5%

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**18 INCOME FROM FINANCING**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Income from Murabaha financing	<b>25,755</b>	23,483
Income from placements with financial institutions	<b>1,903</b>	1,093
Income from Musharaka financing	<b>5,923</b>	6,580
Income from Ijarah Muntahia Bittamleek	<b>9,529</b>	9,351
	<b>43,110</b>	40,507

**19 INCOME FROM INVESTMENT SECURITIES**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Dividend income	<b>216</b>	513
	<b>216</b>	513

**20 INCOME FROM INVESTMENT IN REAL ESTATE**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Loss on sale	<b>(531)</b>	(39)
Rental income	<b>179</b>	371
Impairment charge	<b>(204)</b>	(119)
	<b>(556)</b>	213

**21 OTHER INCOME**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Recoveries from previously written off financing	<b>4,491</b>	1,883
Foreign exchange (loss) / gain	<b>(123)</b>	489
Others	<b>4</b>	368
	<b>4,372</b>	2,740

**22 OTHER OPERATING EXPENSES**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Marketing and advertisement expenses	<b>2,123</b>	2,811
Information technology related expenses	<b>1,558</b>	1,602
Card Centre expenses	<b>2,181</b>	1,951
Premises and equipment expenses	<b>918</b>	1,150
Communication expenses	<b>662</b>	920
Professional services	<b>916</b>	1,254
Board remunerations	<b>266</b>	500
Board of directors sitting fees	<b>153</b>	141
Shari'a committee fees & expenses	<b>65</b>	111
Others	<b>2,352</b>	1,947
	<b>11,194</b>	12,387

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**23 IMPAIRMENT ALLOWANCE, NET**

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Financing assets (note 5.3)	<b>5,747</b>	2,238
Ijarah rental receivables (note 8)	<b>(774)</b>	299
Investments in Sukuk (note 6)	<b>663</b>	2,327
Investments at fair value through equity (note 6)	<b>1,147</b>	1,013
Investment in associate (note 7)	<b>1,776</b>	320
Placements with financial institutions	<b>3</b>	-
Other assets	<b>758</b>	-
Commitments	<b>(425)</b>	-
	<b>8,895</b>	<b>6,197</b>

**24 ZAKAH**

The total Zakah payable as of 31 December 2018 amounted to BD 1,961 thousand (2017: BD 1,875 thousand) of which the Bank has BD 179 thousand Zakah payable (2017: BD 265 thousand ) based on the statutory reserve, general reserve and retained earning as at 1 January 2018. The Zakah balance amounting to BD 1,782 thousand or 1.7 fils per share (2017: BD BD 1,610 thousand or 1.6 fils per share) is due and payable by the shareholders.

**25 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:

	<b>2018</b>	<b>2017</b>
Profit for the year in BD'000	<b>11,381</b>	10,141
Weighted average number of shares	<b>1,051,093</b>	1,050,452
Basic and diluted earnings per share (fils)	<b>10.83</b>	9.65

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



## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 26 RELATED PARTY TRANSACTIONS

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

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

	2018				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
<b>Assets</b>					
Financing assets	-	-	1,615	-	1,615
Investment in associates	-	21,643	-	-	21,643
Other assets	-	-	-	285	285
<b>Liabilities and Equity of investment accountholders</b>					
Borrowings from financial institutions	-	-	-	-	-
Customers' current accounts	-	177	425	77	679
Other liabilities	-	-	500	-	500
Equity of investment accountholders	48,972	-	695	980	50,647
	2018				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Income</b>					
Income from financing	-	-	105	-	105
Share of results of associates, net	-	86	-	-	86
<b>Return on equity of investment accountholders</b>	(1,512)	-	(33)	(35)	(1,580)
<b>Expense on borrowings from financial institutions</b>	(532)	-	-	-	(532)
<b>Expenses</b>					
Other expenses	-	-	(484)	-	(484)
Staff costs	-	-	-	(1,405)	(1,405)

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 26 RELATED PARTY TRANSACTIONS (continued)

	2017				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
<b>Assets</b>					
Financing assets	-	-	1,580	-	1,580
Investment in associates	-	23,739	-	-	23,739
Other assets	-	-	-	268	268
<b>Liabilities and Equity of investment accountholders</b>					
Borrowings from financial institutions	38,991	-	-	-	38,991
Customers' current accounts	-	122	453	109	684
Other liabilities	-	-	517	-	517
Equity of investment accountholders	47,092	-	1,923	1,206	50,221

	2017				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
<b>Income</b>					
Income from financing	-	-	98	-	98
Share of results of associates, net	-	(1,103)	-	-	(1,103)
Return on equity of investment accountholders	(1,469)	-	(28)	(39)	(1,536)
Expense on borrowings	(750)	-	-	-	(750)
<b>Expenses</b>					
Other expenses	-	-	(753)	-	(753)
Staff costs	-	-	-	(1,439)	(1,439)

Compensation of the key management personnel is as follows:

	2018 BD'000	2017 BD'000
Short term employee benefits	1,143	1,178
Other long term benefits	262	261
	<b>1,405</b>	<b>1,439</b>

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

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

##### Risk management objectives

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

The Bank's risk appetite is embodied through its risk strategy; BisB reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios, in addition to evolving regulatory requirements. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks. To monitor and report exposures to these identified risks, the Bank adopted a comprehensive enterprise-wide Risk Management Framework that encompasses the risk limit, monitoring, and reporting structures.

##### 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): The CIC determines the Credit & Investment Policy of the bank, identifies possible risk assumed by the bank for different transactions. The CIC has the authority to make final decision on approval or rejection of proposed transactions within its delegated authority as well as to monitor the performance and quality of the bank's credit and investment portfolio. The purpose of CIC is to assist management in fulfilling its oversight responsibilities relating to the credit & investment objectives, policies, controls, procedures and related activities, including but not limited to the review of the bank's investment and credit exposures, credit, investment, per party, concentration and group limits.

The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer - 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, and Credit Administration.

##### 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 Credit & Risk Management Department (C&RM) to the relevant management/Board-level committee. The limits are reviewed and revised periodically, as required by the relevant policy and regulatory requirements.

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 27 RISK MANAGEMENT (continued)

##### a. Credit Risk

Credit risk is considered to be the most significant and pervasive risk for the Group. The Group takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Group to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers), investment in Sukuk and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Credit and Risk Management Department which sets parameters and thresholds for the Group's financing activities.

##### (i) ECL – Significant increase in credit risk (SICR)

To determine whether credit risk has significantly increased since initial recognition, the Group will compare the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

For the Corporate portfolio, The Group assess for significant increase in credit risk (SICR) at a counterparty level as internal rating is currently carried out at a counterparty level and rating is not assigned at facility level. The Group maintains a facility level rating being the counterparty's internal rating at date of facility origination and date of assessment.

For the Retail portfolio, Group currently manages its retail portfolio at a facility level. However, assessment for SICR on the retail portfolio is done on a counterparty level. Days past due (DPD) of individual facilities will reflect on the counterparty SICR assessment.

##### (ii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. The macro economic factors used in this analysis are shortlisted from the list given below:

1. Gross domestic product, constant prices;
2. Total investments;
3. Gross national savings;
4. Inflation, average consumer prices;
5. Volume of imports of goods and services;
6. Volume of exports of goods and services (including oil);
7. Population;
8. General government revenue;
9. General government total expenditure;
10. General government net lending / borrowing; and
11. General government net debt.

Based on consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (i.e. on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

For Corporate portfolio, through the yearly review of the corporate portfolio, the Group observes yearly performances to compute a count based PD over the one year horizon for the past 5 years. These PDs are grouped as per internal risk ratings (i.e. from 1 to 7). An average default rate of the 5 yearly observed default provides the through the cycle PDs. Where a counterparty is not rated, PD assigned for rating 6 is used.

In relation to the retail portfolio, the portfolio is segmented by product, as demonstrated below:

- (i) Auto finance;
- (ii) Mortgage finance;
- (iii) Tasheel Finance and Others; and
- (iv) Credit cards.

PDs for each segment are measured using Observed Default Estimation and thus PD is calculated based on DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts is tracked at an interval of one year with a moving month cycle. A minimum of 5 year DPD data is considered.

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 27 RISK MANAGEMENT (continued)

##### a. Credit Risk (Continued)

###### *(iii) Determining whether credit risk has increased significantly*

In determining whether credit risk has increased significantly since initial recognition, the Group uses its internal credit risk grading system, external risk ratings, delinquency status of accounts, restructuring, expert credit judgement and, where possible, relevant historical experience.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews and validations:

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:-

**Stage 1 (12 months ECL):** for exposures subject to credit risk where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1 only exceptions are Purchased or Originated Credit Impaired (POCI) assets.

**Stage 2 (lifetime ECL not credit impaired):** for exposures subject to credit risk where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected maturity profile including restructuring or rescheduling of facilities.

**Stage 3 (lifetime ECL credit impaired):** for credit-impaired exposures subject to credit risk, the Group recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

###### *(iv) Definition of 'Default'*

The Group definition of default is aligned with regulatory guidelines and internal credit risk management practices. Defaulted assets will fall under the Stage 3. In general, a counterparty is considered in default and hence relevant exposure or a group of exposures is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the exposure or group of exposures that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment; rather the combined effect of several events may have caused the impairment losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that an exposure or group of exposures is impaired includes observable data that comes to the attention of the holder of the exposure.

In general, counterparties with facilities exceeding 90 days past dues are considered in default.

###### *(v) Incorporation of forward looking information*

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an exposure has increased significantly since its initial recognition and its measurement of ECL. The Group annually source macro-economic forecast data for eleven variables from the International Monetary Fund (IMF) database for Bahrain.

Macro-economic variables checked for correlation with the probability of default for the past five years and only those variables for which the movement can be explained are used. Management judgement is exercised when assessing the macroeconomic variables.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**27 RISK MANAGEMENT (continued)****a. Credit Risk (Continued)***(vi) Measurement of ECL*

The Group measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate. For portfolios wherein instrument level information is not available, the Group carries out ECL estimation on a collective basis.

The key inputs into the measurement of ECL are the term structure of the following variables:

- (i) probability of default (PD);
- (ii) loss given default (LGD); and
- (iii) exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

Corporate PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD.

Retail PD estimates are measured using Observed Default Estimation at the segment level and thus PD will be calculated based at DPD bucket level for each segment separately. Under this analysis, the delinquency status of accounts will be tracked at an interval of one year with a moving month cycle.

Debt type instruments Portfolio, Nostro and Interbank Placements portfolio is assessed for SICR using external ratings, the Group shall obtain PD estimates from Moody's / Standard & Poor's (S&P) / Fitch or any other external ratings.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

Subject to using a maximum of a 12-month PD for exposures subject to credit risk for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a financing commitment or guarantee.

*(vii) Modified exposures subject to credit risk*

The contractual terms of exposures subject to credit risk may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a exposure are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates exposures to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, forbearance of exposures is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate financing exposures are subject to the forbearance policy.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**27 RISK MANAGEMENT (continued)****a. Credit Risk (Continued)***(vii) Modified exposures subject to credit risk (Continued)*

For exposures modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect profit and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behaviour over a period of time (12 months) before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

**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.

Collateral coverage by type of credit exposure:

<b>2018</b>	<b>Properties BD'000</b>	<b>Others BD'000</b>	<b>Total BD'000</b>
Financing assets	650,819	52,924	703,743
Ijarah muntahia bittamleek & rental receivables	221,745	27,647	249,392
	<b>872,564</b>	<b>80,571</b>	<b>953,135</b>
<b>2017</b>	<b>Properties BD'000</b>	<b>Others BD'000</b>	<b>Total BD'000</b>
Financing assets	678,305	55,207	733,512
Ijarah muntahia bittamleek & rental receivables	226,133	27,709	253,842
	<b>904,438</b>	<b>82,916</b>	<b>987,354</b>

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2018 amounts to BD 192,505 thousand (31 December 2017: 180,740 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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 27 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.

	<b>2018</b>	<b>2017</b>
	<b>BD'000</b>	<b>BD'000</b>
Balances with banks and Central Bank	<b>50,119</b>	56,624
Placements with financial institutions	<b>137,450</b>	80,845
Financing assets	<b>578,953</b>	561,822
Ijarah Muntahia Bittamleek and Ijarah rental receivables	<b>186,871</b>	178,880
Investment debt securities	<b>207,233</b>	227,906
	<b>1,160,626</b>	1,106,077
Letters of credit, guarantees and acceptances	<b>72,482</b>	79,629

**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	31 December	31 December	31 December	31 December	31 December
	2018	2017	2018	2017	2018	2017
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
<b>Geographical region</b>						
Middle East	1,260,338	1,194,057	1,153,369	1,091,639	157,684	148,540
North America	5,751	10,473	258	229	-	-
Europe	13,285	24,107	7,265	13,628	-	-
Other	20	10	753	881	-	-
	<b>1,279,394</b>	1,228,647	<b>1,161,645</b>	1,106,377	<b>157,684</b>	148,540
<b>Industry sector</b>						
Trading and manufacturing	126,379	105,018	46,076	19,022	39,725	25,211
Aviation	17,128	-	11,925	53,029	-	-
Real Estate	171,828	211,603	79,832	43,352	40,790	47,843
Banks and financial institutions	206,593	171,187	249,184	216,833	1,403	4,379
Personal / Consumer	430,374	391,662	526,956	472,366	34,935	33,590
Government Organization	240,817	251,777	146,193	165,358	20,159	21,081
Others	86,275	97,400	101,479	136,417	20,672	16,436
	<b>1,279,394</b>	1,228,647	<b>1,161,645</b>	1,106,377	<b>157,684</b>	148,540



## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**27 RISK MANAGEMENT (Continued)**a) *Credit Risk (continued)*

a. The following table sets out information about the credit quality of exposures subject to credit risk, unless specifically indicated:

	31 December 2018			Total
	Stage 1	Stage 2	Stage 3*	
<b>Financing Assets (Funded exposure)</b>				
Low risks	357,627	22,913	-	380,540
Acceptable risks	113,067	31,572	-	144,639
Watch list	344	7,084	-	7,428
Non performing	-	-	76,185	76,185
<b>Gross exposure</b>	<b>471,038</b>	<b>61,569</b>	<b>76,185</b>	<b>608,792</b>
Less: ECL	(2,157)	(3,146)	(24,536)	(29,839)
<b>Financing Assets carrying amount</b>	<b>468,881</b>	<b>58,423</b>	<b>51,649</b>	<b>578,953</b>
<b>ljarah muntahia bittamleek &amp; ljara rental receivables</b>				
Low risks	157,789	1,469	-	159,258
Acceptable risks	11,723	927	-	12,650
Watch list	-	9,653	-	9,653
Non performing	-	-	18,853	18,853
<b>Gross exposure</b>	<b>169,512</b>	<b>12,049</b>	<b>18,853</b>	<b>200,414</b>
Less: ECL	(399)	(2,320)	(10,824)	(13,543)
<b>ljarah muntahia bittamleek &amp; ljara rental receivables carrying amount</b>	<b>169,113</b>	<b>9,729</b>	<b>8,029</b>	<b>186,871</b>
<b>Investment in Sukuk</b>				
Low risks	199,326	-	-	199,326
Acceptable risks	7,583	-	-	7,583
Watch list	-	-	-	-
Non performing	-	-	12,543	12,543
<b>Gross exposure</b>	<b>206,909</b>	-	<b>12,543</b>	<b>219,452</b>
Less: ECL	(52)	-	(12,167)	(12,219)
<b>Investment in Sukuk carrying amount</b>	<b>206,857</b>	-	<b>376</b>	<b>207,233</b>
<b>Placements with financial institutions</b>				
Low risks	137,455	-	-	137,455
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
<b>Gross exposure</b>	<b>137,455</b>	-	-	<b>137,455</b>
Less: ECL	(5)	-	-	(5)
<b>Placements with financial institutions carrying amount</b>	<b>137,450</b>	-	-	<b>137,450</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 27 RISK MANAGEMENT (Continued)

## a) Credit Risk (continued)

	31 December 2018			Total
	Stage 1	Stage 2	Stage 3*	
<b>Balances with Banks</b>				
Low risks	15,014	-	-	15,014
Acceptable risks	-	-	-	-
Watch list	-	-	-	-
Non performing	-	-	-	-
<b>Gross exposure</b>	<b>15,014</b>	<b>-</b>	<b>-</b>	<b>15,014</b>
Less: ECL	-	-	-	-
<b>Balances with Banks carrying amount</b>	<b>15,014</b>	<b>-</b>	<b>-</b>	<b>15,014</b>
<b>Other Receivables</b>				
Low risks	-	-	-	-
Acceptable risks	1,423	1,802	-	3,225
Watch list	-	-	-	-
Non performing	-	-	101	101
<b>Gross exposure</b>	<b>1,423</b>	<b>1,802</b>	<b>101</b>	<b>3,326</b>
Less: ECL	(5)	(127)	(101)	(233)
<b>Other Receivables carrying amount</b>	<b>1,418</b>	<b>1,675</b>	<b>-</b>	<b>3,093</b>
<b>Total funded exposures subject to credit risk carrying amount</b>	<b>998,733</b>	<b>69,827</b>	<b>60,054</b>	<b>1,128,614</b>

\*This includes BD 37,829 thousand of exposures in the cooling off period.

**Commitments**

Gross exposure	40,820	405	159	41,384
ECL	(171)	(3)	(11)	(185)
<b>Commitments carrying amount</b>	<b>40,649</b>	<b>402</b>	<b>148</b>	<b>41,199</b>

b. The following table shows the movement in ECL in various stages:

	31 December 2018			Total
	Stage 1	Stage 2	Stage 3	
At 1 January 2018	3,012	11,184	39,570	53,766
Transfer to Stage 1	2,471	(1,323)	(1,148)	-
Transfer to Stage 2	(111)	2,708	(2,597)	-
Transfer to Stage 3	(27)	(4,837)	4,864	-
Net movement between stages	2,333	(3,452)	1,119	-
Charge for the year (net)	(2,556)	(2,136)	10,077	5,385
Write-off	-	-	(3,106)	(3,106)
Foreign exchange movement	-	-	(21)	(21)
<b>At 31 December 2018</b>	<b>2,789</b>	<b>5,596</b>	<b>47,639</b>	<b>56,024</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

	31 December 2017					
	<i>Balances with banks and Central Bank BD'000</i>	<i>Placements with financial institutions BD'000</i>	<i>Financing assets BD'000</i>	<i>Ijarah Muntahia Bittamleek and rental receivables BD'000</i>	<i>Investment securities (Sukuk) BD'000</i>	<i>Total BD'000</i>
Past due and impaired	-	-	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

Restructured facilities during the year amounted to BD 11,267 thousand (2017: BD 24,586 thousand).

**b. Liquidity Risk**

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 27 RISK MANAGEMENT (continued)

## b. Liquidity Risk (continued)

**Maturity profile of Group's assets and liabilities**

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

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2018 was as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
<b>ASSETS</b>								
Cash and balances with the banks and Central Bank	30,332	-	-	-	-	-	35,105	65,437
Placements with financial institutions	129,809	-	-	7,641	-	-	-	137,450
Financing assets	38,539	33,252	37,585	52,871	190,771	225,935	-	578,953
Ijarah Muntahia Bittamleek and Rental Receivables	661	14,592	2,015	3,505	21,351	144,747	-	186,871
Investment securities	-	5,774	20,069	1,611	50,017	129,763	32,819	240,053
Investment in associates	-	-	-	-	-	-	21,643	21,643
Investment in real estate	-	-	-	-	-	-	24,284	24,284
Property and equipment	-	-	-	-	-	-	13,641	13,641
Other assets	2	771	520	595	642	1,765	6,767	11,062
<b>Total assets</b>	<b>199,343</b>	<b>54,389</b>	<b>60,189</b>	<b>66,223</b>	<b>262,781</b>	<b>502,210</b>	<b>134,259</b>	<b>1,279,394</b>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>								
Placements from financial institutions	84,681	11,643	-	9,184	9,236	-	-	114,744
Placements from non-financial institutions and individual:	-	-	-	7,255	-	-	-	7,255
Borrowings from financial institutions	36,799	14,343	-	45,244	-	-	-	96,386
Customers' current accounts	26,648	-	-	-	-	106,596	-	133,244
Other liabilities	24,025	-	-	-	-	-	-	24,025
Equity of investment accountholders	184,394	125,390	87,384	119,493	29,991	239,339	-	785,991
<b>Total liabilities and equity of investment accountholders</b>	<b>356,547</b>	<b>151,376</b>	<b>87,384</b>	<b>181,176</b>	<b>39,227</b>	<b>345,935</b>	<b>-</b>	<b>1,161,645</b>
<b>Liquidity gap</b>	<b>(157,204)</b>	<b>(96,987)</b>	<b>(27,195)</b>	<b>(114,953)</b>	<b>223,554</b>	<b>156,275</b>	<b>134,259</b>	<b>117,749</b>
<b>Cumulative liquidity gap</b>	<b>(157,204)</b>	<b>(254,191)</b>	<b>(281,386)</b>	<b>(396,339)</b>	<b>(172,785)</b>	<b>(16,510)</b>	<b>117,749</b>	<b>-</b>

**Bahrain Islamic Bank B.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**27 RISK MANAGEMENT (continued)**

**b. Liquidity risk (continued)**

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

ASSETS	Up to	1 to 3	3 to 6	6 months	1 to 3	Over	No fixed	Total
	1 month	months	months	to 1 year	years	3 years	maturity	
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with the banks and Central Bank	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 Receivables	10,193	8,309	162	56	4,222	155,938	-	178,880
Investments 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
<b>Total assets</b>	<b>160,394</b>	<b>76,948</b>	<b>57,321</b>	<b>74,364</b>	<b>105,926</b>	<b>620,156</b>	<b>133,538</b>	<b>1,228,647</b>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>								
Placements from financial institutions	61,086	6,786	-	-	-	-	-	67,872
Borrowings from financial institutions	-	63,488	-	38,088	-	-	-	101,576
Customers' current accounts	26,333	-	-	-	-	105,333	-	131,666
Other liabilities	11,507	-	-	-	-	-	-	11,507
Equity investment accountholders	206,961	102,475	146,113	72,960	9,334	255,913	-	793,756
<b>Total liabilities and equity of investment accountholders</b>	<b>305,887</b>	<b>172,749</b>	<b>146,113</b>	<b>111,048</b>	<b>9,334</b>	<b>361,246</b>	<b>-</b>	<b>1,106,377</b>
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	-

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**27 RISK MANAGEMENT (continued)****c. Market Risk**

The Group has accepted the definition of market risk as defined by CBB as “the risk of losses in on and off 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 inline with the market rates.

**ii. Equity price risk**

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

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

As at the consolidated statement of financial position date, the Group has unquoted (equities and sukuk) of BD 122 million (31 December 2017: BD 115 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.

## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 27 RISK MANAGEMENT (continued)

##### c. Market Risk (continued)

##### iii. Foreign exchange risk

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

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

	<i>Equivalent Long (short)</i>	<i>Equivalent Long (short)</i>
	<u>2018</u>	<u>2017</u>
	<i>BD '000</i>	<i>BD '000</i>
<b>Currency</b>		
Pound Sterling	<b>(1,075)</b>	(1,020)
Euro	<b>(1,084)</b>	(985)
CAD	<b>(50)</b>	(4)
JPY	<b>(15)</b>	(6)
Kuwaiti Dinars	<b>(9,619)</b>	(8,659)

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.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2018

**28 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:

	<b>31 December 2018</b>			
	<b>Corporate BD'000</b>	<b>Retail BD'000</b>	<b>Investment BD'000</b>	<b>Total BD'000</b>
Total net income	10,139	23,611	11,781	45,531
Total expenses	(5,157)	(17,914)	(2,184)	(25,255)
Provision for impairment	(3,808)	(740)	(4,347)	(8,895)
<b>Profit for the year</b>	<b>1,174</b>	<b>4,957</b>	<b>5,250</b>	<b>11,381</b>
<b>Other information</b>				
Segment assets	365,325	465,835	448,234	1,279,394
Segment liabilities, and equity	410,663	544,700	324,031	1,279,394
	<b>31 December 2017</b>			
	<b>Corporate BD'000</b>	<b>Retail BD'000</b>	<b>Investment BD'000</b>	<b>Total BD'000</b>
Total income	10,732	27,170	5,004	42,906
Total expenses	(5,043)	(18,154)	(3,371)	(26,568)
Provision for impairment	(7,399)	529	673	(6,197)
<b>Profit / (loss) for the year</b>	<b>(1,710)</b>	<b>9,545</b>	<b>2,306</b>	<b>10,141</b>
<b>Other information</b>				
Segment assets	330,624	455,535	442,488	1,228,647
Segment liabilities, and equity	450,926	517,873	259,848	1,228,647

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



## Bahrain Islamic Bank B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 29 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 and Ijarah Muntahia Bittamleek, 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. None of the Group's financial instruments are at fair value.

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.

#### 30 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

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

#### 31 SHARI'A SUPERVISORY BOARD

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

#### 32 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.

#### 33 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.

**APPENDIX F -**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

For The Period Ended 30 September 2019

**BAHRAIN ISLAMIC BANK B.S.C.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**30 SEPTEMBER 2019**



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CR No. 6220

## **Independent auditors' report on review of condensed consolidated interim financial information**

The Board of Directors  
Bahrain Islamic Bank B.S.C.  
Manama  
Kingdom of Bahrain

4 November 2019

### **Introduction**

We have reviewed the accompanying 30 September 2019 condensed consolidated interim financial information of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2019;
- the condensed consolidated statement of income for the three-month and nine-month periods ended 30 September 2019;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of changes in owners' equity for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of sources and uses of good faith qard fund for the nine-month period ended 30 September 2019;
- the condensed consolidated statement of sources and uses of zakah and charity fund for the nine-month period ended 30 September 2019; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### **Scope of review**

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2019 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.


## Bahrain Islamic Bank B.S.C.


## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Note	30 September 2019 BD'000 (reviewed)	31 December 2018 BD'000 (audited)
<b>ASSETS</b>			
Cash and balances with banks and Central Bank		66,521	65,437
Placements with financial institutions		67,038	137,450
Financing assets	8	573,373	580,076
Investment securities	9	253,049	240,053
Ijarah Muntahia Bittamleek		175,976	165,730
Ijarah rental receivables		31,390	21,141
Investment in associates		19,776	21,643
Investment in real estate	10	21,328	24,284
Property and equipment		13,473	13,641
Other assets	11	9,384	11,062
<b>TOTAL ASSETS</b>		<b>1,231,308</b>	<b>1,280,517</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Placements from financial institutions		179,486	114,744
Placements from non-financial institutions and individuals		178,832	36,234
Borrowings from financial institutions		29,585	96,386
Customers' current accounts		164,474	133,244
Other liabilities	12	19,237	25,148
<b>Total Liabilities</b>		<b>571,614</b>	<b>405,756</b>
<b>Equity of Investment Accountholders</b>		<b>538,074</b>	<b>757,012</b>
<b>Owners' Equity</b>			
Share capital		106,406	106,406
Treasury shares		(892)	(892)
Shares under employee share incentive scheme		(281)	(391)
Share premium		180	120
Reserves		16,207	12,506
<b>Total Owners' Equity</b>		<b>121,620</b>	<b>117,749</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>		<b>1,231,308</b>	<b>1,280,517</b>

The condensed consolidated interim financial information was approved by the Board of Directors on 4 November 2019 and signed on its behalf by:

  
 Dr. Esam Abdulla Fakhro  
 Chairman

  
 Gen. Ebrahim Abdulla Al Mahmood  
 Vice Chairman

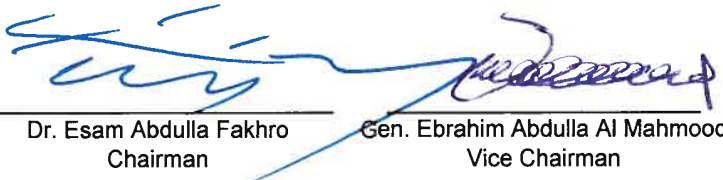
  
 Hassan Amin Jarrar  
 Chief Executive Officer

## Bahrain Islamic Bank B.S.C.

## CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the nine months ended 30 September 2019

	Nine months ended		Three months ended	
	30 September		30 September	
	2019	2018	2019	2018
Note	BD'000	BD'000	BD'000	BD'000
	(reviewed)	(reviewed)	(reviewed)	(reviewed)
<b>INCOME</b>				
Income from financing	33,887	31,857	11,273	11,049
Income from investment in Sukuk	9,057	8,040	2,932	2,693
<b>Total income from jointly financed assets</b>	<b>42,944</b>	<b>39,897</b>	<b>14,205</b>	<b>13,742</b>
Return on equity of investment accountholders	(21,513)	(28,436)	(6,018)	(10,403)
Group's share as Mudarib	13,099	18,849	3,487	7,365
Net return on equity of investment accountholders	(8,414)	(9,587)	(2,531)	(3,038)
<b>Group's share of income from jointly financed assets (both as mudarib and investor)</b>	<b>34,530</b>	<b>30,310</b>	<b>11,674</b>	<b>10,704</b>
Expense on placements from financial institutions	(3,322)	(1,375)	(1,142)	(372)
Expense on placements from non-financial institutions and individuals	(3,679)	(475)	(1,716)	(210)
Expense on borrowings from financial institutions	(2,051)	(3,158)	(460)	(1,346)
Fee and commission income	6,075	5,477	2,140	1,939
Income from investment securities	613	206	(29)	-
Income from investment in real estate	254	(358)	42	(15)
Share of results of associates, net	(93)	36	53	(14)
Other income	1,053	689	252	214
<b>Total income</b>	<b>33,380</b>	<b>31,352</b>	<b>10,814</b>	<b>10,900</b>
<b>EXPENSES</b>				
Staff costs	10,586	9,136	3,270	2,937
Depreciation	1,017	1,207	335	405
Other expenses	8,211	8,370	2,868	3,080
<b>Total expenses</b>	<b>19,814</b>	<b>18,713</b>	<b>6,473</b>	<b>6,422</b>
<b>Profit before impairment allowances</b>	<b>13,566</b>	<b>12,639</b>	<b>4,341</b>	<b>4,478</b>
Impairment allowance, net	13 (8,521)	(5,766)	(2,608)	(1,112)
<b>PROFIT FOR THE PERIOD</b>	<b>5,045</b>	<b>6,873</b>	<b>1,733</b>	<b>3,366</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (fils)</b>	<b>4.80</b>	<b>6.54</b>	<b>1.65</b>	<b>3.20</b>



Dr. Esam Abdulla Fakhro  
Chairman

Gen. Ebrahim Abdulla Al Mahmood  
Vice Chairman



Hassan Amin Jarrar  
Chief Executive Officer

## Bahrain Islamic Bank B.S.C.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2019

	<i>Nine months ended</i>	
	<i>30 September</i>	
	<b>2019</b>	<b>2018</b>
	<b>BD'000</b>	<b>BD'000</b>
	<i>(reviewed)</i>	<i>(reviewed)</i>
<b>OPERATING ACTIVITIES</b>		
Profit for the period	5,045	6,873
Adjustments for non-cash items:		
Depreciation	1,017	1,207
Impairment allowance, net	8,521	5,766
Amortization of gain on sale of investment in real estate	(14)	(14)
(Gain) / Loss on sale of investment in real estate	(117)	519
Loss on foreign exchange revaluation	9	20
Share of results of associates, net	93	(36)
Operating profit before changes in operating assets and liabilities	<b>14,554</b>	14,335
Working capital adjustments:		
Mandatory reserve with Central Bank of Bahrain	205	525
Financing assets	914	(15,702)
Ijarah Muntahia Bittamleek	(21,920)	(4,297)
Other assets	1,654	(1,121)
Customers' current accounts	31,230	(602)
Other liabilities	(6,031)	2,497
Placements from financial institutions	66,895	56,681
Placements from non-financial institutions and individuals	142,598	1,052
Equity of investment accountholders	(218,938)	(67,388)
<b>Net cash from / (used in) operating activities</b>	<b>11,161</b>	(14,020)
<b>INVESTING ACTIVITIES</b>		
Disposal of investment in real estate	2,158	3,344
Purchase of property and equipment	(849)	(451)
Purchase of investment securities	(44,552)	(81,494)
Proceeds from disposal of investment securities	31,153	86,707
Redemption of investment in associates	887	-
<b>Net cash (used in) / from investing activities</b>	<b>(11,203)</b>	8,106
<b>FINANCING ACTIVITIES</b>		
Purchase of treasury shares	(121)	-
Borrowings from financial institutions	(66,801)	1,160
Dividends paid	(4)	(31)
<b>Net cash (used in) / from financing activities</b>	<b>(66,926)</b>	1,129
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(66,968)</b>	(4,785)
Cash and cash equivalents at 1 January	163,116	112,794
<b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>	<b>96,148</b>	108,009
Cash and cash equivalents comprise of:		
Cash on hand	16,034	10,910
Balances with CBB, excluding mandatory reserve deposits	6,155	498
Balances with banks and other financial institutions excluding restricted balances	6,921	6,270
Placements with financial institutions with original maturities less than 90 days	67,038	90,331
	<b>96,148</b>	108,009

## Bahrain Islamic Bank B.S.C. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the nine months ended 30 September 2019

	Shares under employee share incentive scheme				Reserves				Total owners' equity BD'000	
	Share capital BD'000	Treasury shares 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 / (Accumulated losses) BD'000	Total reserves BD'000		
<b>2019 - reviewed</b>										
Balance at 1 January 2019	106,406	(892)	(391)	120	4,115	4,830	718	2,843	12,506	117,749
Profit for the period	-	-	-	-	-	-	-	5,045	5,045	5,045
Zakah approved	-	-	-	-	-	-	-	(179)	(179)	(179)
Donations approved	-	-	-	-	-	-	-	(250)	(250)	(250)
Shares allocated to staff during the period	-	-	231	60	-	-	-	-	-	291
Purchase of treasury shares	-	(121)	-	-	-	-	-	-	-	(121)
Transfer to shares under employee share incentive scheme	-	121	(121)	-	-	-	-	-	-	-
Net movement in real estate fair value reserve	-	-	-	-	-	(915)	-	-	(915)	(915)
<b>Balance at 30 September 2019</b>	<b>106,406</b>	<b>(892)</b>	<b>(281)</b>	<b>180</b>	<b>4,115</b>	<b>3,915</b>	<b>718</b>	<b>7,459</b>	<b>16,207</b>	<b>121,620</b>
<b>2018 - reviewed</b>										
Balance at 1 January 2018	101,339	(864)	(498)	98	2,977	6,145	745	12,328	22,195	122,270
Impact of adopting FAS 30	-	-	-	-	-	-	-	(13,943)	(13,943)	(13,943)
Impact of adopting FAS 30 by associate	-	-	-	-	-	-	-	(350)	(350)	(350)
Balance at 1 January 2018 (Restated)	101,339	(864)	(498)	98	2,977	6,145	745	(1,965)	7,902	107,977
Profit for the period	-	-	-	-	-	-	-	6,873	6,873	6,873
Bonus shares	5,067	(28)	(34)	(35)	-	-	-	(4,970)	(4,970)	-
Zakah approved	-	-	-	-	-	-	-	(265)	(265)	(265)
Donations approved	-	-	-	-	-	-	-	(200)	(200)	(200)
Shares allocated to staff during the period	-	-	141	57	-	-	-	-	-	198
Net movement in investment securities fair value reserve	-	-	-	-	-	-	(27)	-	(27)	(27)
Net movement in real estate fair value reserve	-	-	-	-	-	(71)	-	-	(71)	(71)
<b>Balance at 30 September 2018</b>	<b>106,406</b>	<b>(892)</b>	<b>(391)</b>	<b>120</b>	<b>2,977</b>	<b>6,074</b>	<b>718</b>	<b>(527)</b>	<b>9,242</b>	<b>114,485</b>

The accompanying notes 1 to 18 form part of this condensed consolidated interim financial information.



## Bahrain Islamic Bank B.S.C.

## CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the nine months ended 30 September 2019

	<i>Qard Hasan receivables BD'000 (reviewed)</i>	<i>Funds available for Qard Hasan BD'000 (reviewed)</i>	<i>Total BD'000 (reviewed)</i>
Balance at 1 January 2019	<u>71</u>	<u>57</u>	<u>128</u>
Sources of Qard Fund			
Non-Islamic income	-	87	87
Repayments	<u>(28)</u>	<u>28</u>	<u>-</u>
Total sources during the period	<u>(28)</u>	<u>115</u>	<u>87</u>
Uses of Qard fund			
Marriage	9	(9)	-
Others (Waqf)	9	(9)	-
Total uses during the period	<u>18</u>	<u>(18)</u>	<u>-</u>
<b>Balance at 30 September 2019</b>	<b><u>61</u></b>	<b><u>154</u></b>	<b><u>215</u></b>
Balance at 1 January 2018	<u>71</u>	<u>57</u>	<u>128</u>
Sources of Qard Fund			
Repayments	<u>(26)</u>	<u>26</u>	<u>-</u>
Total sources during the period	<u>(26)</u>	<u>26</u>	<u>-</u>
Uses of Qard fund			
Marriage	7	(7)	-
Others (Waqf)	<u>26</u>	<u>(26)</u>	<u>-</u>
Total uses during the period	<u>33</u>	<u>(33)</u>	<u>-</u>
Balance at 30 September 2018	<u>78</u>	<u>50</u>	<u>128</u>
		<b><i>30 September 2019 BD'000 (reviewed)</i></b>	<b><i>30 September 2018 BD'000 (reviewed)</i></b>
<b>Sources of Qard fund</b>			
Contribution by the Bank		125	125
Donation		3	3
Non-Islamic income		87	-
		<u>215</u>	<u>128</u>

**Bahrain Islamic Bank B.S.C.****CONDENSED CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND**

For the nine months ended 30 September 2019

	<b>30 September 2019 BD'000 (reviewed)</b>	<b>30 September 2018 BD'000 (reviewed)</b>
<b>Sources of Zakah and charity funds</b>		
Undistributed Zakah and charity funds at the beginning of the period	<b>314</b>	259
Non-Islamic income / late payment fee	<b>476</b>	371
Contributions by the Bank for zakah	<b>186</b>	265
Contributions by the Bank for donations	<b>250</b>	200
Total sources of Zakah and charity funds during the period	<b>1,226</b>	1,095
<b>Uses of Zakah and charity funds</b>		
Philanthropic societies	<b>325</b>	260
Aid to needy families	<b>362</b>	305
Islamic events	-	32
Others	<b>14</b>	-
Total uses of funds during the period	<b>701</b>	597
<b>Undistributed zakah and charity funds at the end of the period</b>	<b>525</b>	498

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

For the nine months ended 30 September 2019

**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, Commerce and Tourism ("MOICT") 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 nine branches (2018: nine), all operating in the Kingdom of Bahrain.

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

**2 BASIS OF PREPARATION AND PRESENTATION**

The condensed consolidated interim financial information for the nine month period ended 30 September 2019 has been prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by AAOIFI standards, the Group uses guidance from the relevant International Financial Reporting Standards ("IFRS"). Accordingly, the condensed consolidated interim financial information has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting'. The condensed consolidated interim financial information does not contain all the information and disclosures required for full annual consolidated financial statements, and should be read in conjunction with the Group's audited consolidated financial statements as at 31 December 2018. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last audited consolidated financial statements as at and for the year ended 31 December 2018.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2018.

**4 FINANCIAL RISK MANAGEMENT**

The Group's financial risk management objectives and policies are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2018.

**5 JUDGMENT AND ESTIMATES**

Preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2018.

**6 COMPARATIVE INFORMATION**

The condensed interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the Group's audited consolidated financial statements for the year ended 31 December 2018 and comparatives for the condensed consolidated statements of income, changes in owner's equity, cash flows, sources and uses of Good Faith Qard Fund and sources and uses of Zakah and Charity Fund have been extracted from the Group's reviewed condensed consolidated interim financial information for the nine months ended 30 September 2018.

**7 SEASONALITY**

The Bank does not have significant income of seasonal nature. The Other income includes BD 613 thousand (2018: BD 206 thousand) of dividends received from Bank's investments.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2019

## 8 FINANCING ASSETS

	<b>30 September 2019 BD'000 (Reviewed)</b>	<b>31 December 2018 BD'000 (Audited)</b>
Murabaha	575,430	575,041
Musharaka	97,932	100,127
<b>Gross financing assets</b>	<b>673,362</b>	<b>675,168</b>
Deferred profits	(67,644)	(65,253)
Impairment allowance	(32,345)	(29,839)
<b>Net financing assets</b>	<b>573,373</b>	<b>580,076</b>

## 8.1 The movement on impairment allowances is as follows:

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>2019</b>				
<b>Gross financing assets</b>	<b>525,920</b>	<b>48,379</b>	<b>99,063</b>	<b>673,362</b>
<b>Less: Deferred profits</b>	<b>51,237</b>	<b>4,660</b>	<b>11,747</b>	<b>67,644</b>
<b>Less: Impairment allowance</b>				
At 1 January 2019	2,157	3,146	24,536	29,839
Net movement between stages	199	(1,190)	991	-
Net charge for the period	(192)	64	6,040	5,912
Write-off	-	-	(3,406)	(3,406)
<b>Impairment allowance at 30 September 2019</b>	<b>2,164</b>	<b>2,020</b>	<b>28,161</b>	<b>32,345</b>
<b>Net financing assets</b>	<b>472,519</b>	<b>41,699</b>	<b>59,155</b>	<b>573,373</b>
<b>2018</b>				
<b>Gross financing assets</b>	<b>522,720</b>	<b>66,735</b>	<b>85,713</b>	<b>675,168</b>
<b>Less: Deferred profits</b>	<b>50,559</b>	<b>5,166</b>	<b>9,528</b>	<b>65,253</b>
<b>Less: Impairment allowance</b>				
At 1 January 2018	2,367	9,486	15,345	27,198
Net movement between stages	1,302	(4,304)	3,002	-
Net charge for the year	(1,512)	(2,036)	9,295	5,747
Write-off	-	-	(3,106)	(3,106)
<b>Impairment allowance at 31 December 2018</b>	<b>2,157</b>	<b>3,146</b>	<b>24,536</b>	<b>29,839</b>
<b>Net financing assets</b>	<b>470,004</b>	<b>58,423</b>	<b>51,649</b>	<b>580,076</b>

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2019

## 9 INVESTMENT SECURITIES

	<b>30 September 2019 BD'000 (Reviewed)</b>	<b>31 December 2018 BD'000 (Audited)</b>
<b>i) Debt type instruments*</b>		
<i>Quoted Sukuk - carried at amortised cost</i>		
Gross balance at the beginning of the period	160,727	176,806
Acquisitions	44,499	41,891
Disposals and redemptions	(5,264)	(57,970)
<b>Gross balance at the end of the period</b>	<b>199,962</b>	<b>160,727</b>
Impairment allowance	(15)	(23)
<b>Net balance at the end of the period</b>	<b>199,947</b>	<b>160,704</b>
<i>Unquoted Sukuk - carried at amortised cost</i>		
Gross balance at the beginning of the period	58,725	62,581
Acquisitions	53	33,699
Disposals and redemptions	(25,889)	(37,534)
Foreign currency translation changes	(7)	(21)
<b>Gross balance at the end of the period</b>	<b>32,882</b>	<b>58,725</b>
Impairment allowance	(12,180)	(12,196)
<b>Net balance at the end of the period</b>	<b>20,702</b>	<b>46,529</b>
<b>ii) Equity type instruments</b>		
<i>Unquoted shares - at cost less impairment</i>		
Gross balance	28,436	28,436
Impairment allowance	(10,204)	(9,784)
<b>Net balance at the end of the period</b>	<b>18,232</b>	<b>18,652</b>
<i>Unquoted managed funds - at cost less impairment</i>		
Gross balance	14,168	14,168
Impairment allowance	-	-
<b>Net balance at the end of the period</b>	<b>14,168</b>	<b>14,168</b>
<b>Total net investment securities</b>	<b>253,049</b>	<b>240,053</b>

\* As of 30 September 2019, debt type instruments includes sukuk of BD 38,287 thousand (31 December 2018: BD 134,895 thousand) pledged against borrowings from financial institutions of BD 29,585 thousand (31 December 2018: BD 96,386 thousand).

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2019

## 10 INVESTMENT IN REAL ESTATE

	<b>30 September</b> <b>2019</b> <b>BD'000</b> <b>(Reviewed)</b>	<b>31 December</b> <b>2018</b> <b>BD'000</b> <b>(Audited)</b>
Lands	21,169	23,966
Buildings	159	318
	<b>21,328</b>	<b>24,284</b>

	<b>30 September</b> <b>2019</b> <b>BD'000</b> <b>(Reviewed)</b>	<b>31 December</b> <b>2018</b> <b>BD'000</b> <b>(Audited)</b>
Movement in investment in real estate:		
Beginning of the period	24,284	29,831
Disposal	(2,956)	(4,028)
Fair value changes	-	(1,519)
<b>End of the period</b>	<b>21,328</b>	<b>24,284</b>

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

## 11 OTHER ASSETS

	<b>30 September</b> <b>2019</b> <b>BD'000</b> <b>(Reviewed)</b>	<b>31 December</b> <b>2018</b> <b>BD'000</b> <b>(Audited)</b>
Reposessed assets	5,103	5,103
Receivables*	1,682	3,224
Staff advances	1,848	1,717
Prepaid expenses	497	803
Other	254	215
	<b>9,384</b>	<b>11,062</b>

\* Receivables are net of ECL amounting to BD 167 thousand as of 30 September 2019 (31 December 2018: BD 233 thousand).

## 12 OTHER LIABILITIES

	<b>30 September</b> <b>2019</b> <b>BD'000</b> <b>(Reviewed)</b>	<b>31 December</b> <b>2018</b> <b>BD'000</b> <b>(Audited)</b>
Managers' cheques	3,431	3,560
Payable to vendors	6,575	3,874
Accrued expenses	3,305	3,551
Life insurance (Takaful) fees payable	246	845
Dividends payable	924	928
Zakah and charity fund	525	314
Other*	4,231	12,076
	<b>19,237</b>	<b>25,148</b>

\* Other liabilities includes ECL of BD 62 thousand as of 30 September 2019 (31 December 2018: BD 185 thousand) on commitments.

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2019

**13 IMPAIRMENT ALLOWANCE, NET**

	<b>30 September 2019 BD'000 (Reviewed)</b>	<b>30 September 2018 BD'000 (Reviewed)</b>
Financing assets (note 8.1)	5,912	3,867
Ijarah rental receivables	1,424	(205)
Investments in Sukuk	(18)	664
Investments at fair value through equity	419	399
Investment in associate	877	1,241
Placements with financial institutions	(5)	1
Other assets	35	72
Commitments	(123)	(273)
	<b>8,521</b>	<b>5,766</b>

**14 COMMITMENTS AND CONTINGENT LIABILITIES**

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

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

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

	<b>30 September 2019 BD'000 (Reviewed)</b>	<b>31 December 2018 BD'000 (Audited)</b>
Letters of credit and acceptances	5,268	6,166
Guarantees	64,178	66,316
Credit Cards	34,191	34,048
Altamweel Almaren	20,690	15,405
Commitments to finance	9,314	35,422
Operating lease commitments*	299	327
	<b>133,940</b>	<b>157,684</b>

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

## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2019

## 15 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 30 September 2019 were as follows:

	30 September 2019 (Reviewed)				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Assets</b>					
Financing assets	-	-	1,262	-	1,262
Investment in associates	-	19,776	-	-	19,776
Other assets	-	-	-	349	349
<b>Liabilities and Equity of investment accountholders</b>					
Placements from non-financial institutions and individuals	10,784	-	50	-	10,834
Customers' current accounts	-	369	410	101	880
Other liabilities	-	-	217	-	217
Equity of investment accountholders	21,425	-	694	1,200	23,319
	30 September 2019 (Reviewed)				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Income</b>					
Income from financing	-	-	54	-	54
Share of results of associates, net	-	(254)	-	-	(254)
Return on equity of investment accountholders	(1,019)	-	(1)	(36)	(1,056)
Expense on placements from non-financial institutions and individuals	(188)	-	-	-	(188)
<b>Expenses</b>					
Staff costs	-	-	-	(1,172)	(1,172)
Other expenses	-	-	(159)	-	(159)
	31 December 2018 (Audited)				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Assets</b>					
Financing assets	-	-	1,615	-	1,615
Investment in associates	-	21,643	-	-	21,643
Other assets	-	-	-	285	285
<b>Liabilities and Equity of investment accountholders</b>					
Customers' current accounts	-	177	425	77	679
Other liabilities	-	-	500	-	500
Equity of investment accountholders	48,972	-	695	980	50,647
	30 September 2018 (Reviewed)				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
<b>Income</b>					
Income from financing	-	-	82	-	82
Share of results of associates, net	-	36	-	-	36
Return on equity of investment accountholders	(1,073)	-	(25)	(24)	(1,122)
Expense on borrowings from financial institutions	(532)	-	-	-	(532)
<b>Expenses</b>					
Staff costs	-	-	-	(1,037)	(1,037)
Other expenses	-	-	(306)	-	(306)

Compensation of the key management personnel is as follows:

	Nine months ended 30 September	
	2019 BD'000	2018 BD'000
Short term employee benefits	940	846
Other long term benefits	232	191
	<b>1,172</b>	<b>1,037</b>



## Bahrain Islamic Bank B.S.C.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months ended 30 September 2019

**16 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. For unquoted securities/sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The 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.

As of 30 September 2019, the Bank did not have any financial instruments recorded at fair value.

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

During the nine-months period ended 30 September 2019 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurement.

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 from fair value of these assets. Other than equity investments and managed funds carried at cost of BD 32,400 thousand (2018: BD 32,820 thousand), the estimated fair value of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

**17 SEGMENTAL INFORMATION**

For management purposes, the Group is organised 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.

**Bahrain Islamic Bank B.S.C.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

For the nine months ended 30 September 2019

**17 SEGMENTAL INFORMATION (continued)**

Segment information is disclosed as follows:

	<i>For the nine months ended 30 September 2019 (Reviewed)</i>			
	<i>Corporate BD'000</i>	<i>Retail BD'000</i>	<i>Investment BD'000</i>	<i>Total BD'000</i>
Total net income	7,100	17,718	8,562	33,380
Total expenses	(4,259)	(14,108)	(1,447)	(19,814)
Impairment allowance, net	(5,878)	(1,335)	(1,308)	(8,521)
<b>Profit / (loss) for the period</b>	<b>(3,037)</b>	<b>2,275</b>	<b>5,807</b>	<b>5,045</b>

**Other information**

	<i>30 September 2019 (Reviewed)</i>			
	<i>Corporate BD'000</i>	<i>Retail BD'000</i>	<i>Investment BD'000</i>	<i>Total BD'000</i>
Segment assets	363,024	483,359	384,925	1,231,308
Segment liabilities, and equity	409,060	564,236	258,012	1,231,308

	<i>For the nine months ended 30 September 2018 (Reviewed)</i>			
	<i>Corporate BD'000</i>	<i>Retail BD'000</i>	<i>Investment BD'000</i>	<i>Total BD'000</i>
Total net income	6,854	17,675	6,823	31,352
Total expenses	(3,602)	(12,932)	(2,179)	(18,713)
Impairment allowance, net	(2,558)	(830)	(2,378)	(5,766)
<b>Profit for the period</b>	<b>694</b>	<b>3,913</b>	<b>2,266</b>	<b>6,873</b>

**Other information**

	<i>31 December 2018 (Audited)</i>			
	<i>Corporate BD'000</i>	<i>Retail BD'000</i>	<i>Investment BD'000</i>	<i>Total BD'000</i>
Segment assets	365,325	466,958	448,234	1,280,517
Segment liabilities, and equity	410,663	545,823	324,031	1,280,517

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

**18 COMPARATIVES**

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