National Bank of Bahrain B.S.C.
(Incorporated in the Kingdom of Bahrain)
Commercial Registration Number 269

OFFER DOCUMENT

IN RELATION TO 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 THE NATIONAL BANK OF BAHRAIN B.S.C.'S TOTAL STAKE IN THE BAHRAIN ISLAMIC BANK B.S.C. TO A MINIMUM OF 70% FOR EITHER CASH OF BHD 0.117 PER BAHRAIN ISLAMIC BANK B.S.C. SHARE OR SHARES EXCHANGE AT A SHARE EXCHANGE RATIO OF 0.167 NEW NATIONAL BANK OF BAHRAIN B.S.C. SHARES PER BAHRAIN ISLAMIC BANK B.S.C. SHARE AT THE OPTION OF EACH SHAREHOLDER OF BAHRAIN ISLAMIC BANK B.S.C.

Key dates	
Offer Opening Date	To be announced
Initial Offer Closing Date	The date which is fifteen (15) calendar days from the Offer Opening Date, subject to extension and subject to the Final Closing Date
Final Closing Date	The Initial Offer Closing Date, or fifteen (15) calendar days from the date the Offer is revised or announced as unconditional, whichever is later
Offer Acceptance/Rejection Announcement Date	One (1) Business Day after the Final Closing Date

Important: If you are in doubt about any aspect of this Offer, you should consult a licensed securities dealer or licensed institution in securities, a bank manager, solicitor or attorney, professional accountant or any other professional advisor.

Disclaimer statement

The Central Bank of Bahrain, 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 Offer Document and expressly disclaim any liability whatsoever for any loss howsoever arising from the reliance upon the whole or any part of the contents to this Offer Document.

This Offer Document is dated 24 November 2019

Offeror				
National Bank of Bahrain B.S.C.				
Financial Advisor to the Offeror	Legal Advisors to the Offeror		Issue Execution Advisor, Receiving Agent, and Allotment Agent	Central Securities Depositary and Issue Registrar
Lazard Frères SAS	Trowers & Hamlins	Hassan Radhi & Associates	SICO B.S.C.(c)	Bahrain Clear B.S.C.(c)

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OFFER DOCUMENT

DIRECTORS' DECLARATION

The Directors of National Bank of Bahrain B.S.C. issuing this Offer Document, whose names appear below, jointly and severally accept full responsibility for the accuracy of information contained in this Offer Document. 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 Offer Document is in accordance with the facts and contains no omissions likely to affect the importance and completeness of this Offer Document.

Statement from the Board of Directors of National Bank of Bahrain B.S.C.

This Offer Document has been prepared by National Bank of Bahrain B.S.C. in accordance with Appendix TMA-C of Part B of the Central Bank of Bahrain Rulebook, Volume 6, Takeovers, Mergers and Acquisitions Module to provide information to the shareholders of Bahrain Islamic Bank B.S.C. 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%, bringing the National Bank of Bahrain B.S.C.'s total ownership of the issued share capital of Bahrain Islamic Bank B.S.C. to a minimum of 70%.

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

Board of Directors	Title	Signature
Mr. Farouk Yousif Khalil AlMoayyed	Chairman	
Dr. Essam Abdulla Yousif Fakhro	Vice Chairman	
Mr. Fawzi Ahmed Ali Kanoo	Vice Chairman	
Mr. Khalid Yousif Abdul Rahman Abdul Rahim	Director	
Mr. Husain Sultan Sultan AlGhanem	Director	
H.E. Khalid Omar Al Romaihi	Director	23.11.2019
Sh. Rashed Bin Salman Al Khalifa	Director	
Ms. Hala Ali Husain Yateem	Director	
Mr. Yousif Abdulla Akbar Alireza	Director	
Mr. Rishi Kapoor	Director	
Mr. Mohammed Tareq Mohammed Sadeq Mohamed Akbar	Director	

IMPORTANT INFORMATION

This Offer Document has been prepared in connection with a voluntary conditional offer (the **Offer**) made by National Bank of Bahrain B.S.C. (the **Offeror** or **NBB**) to acquire up to 100% of the issued and paid up shares of Bahrain Islamic Bank B.S.C. (the **Offeree** or **BISB**), subject to a minimum acquisition of 40.94%, increasing NBB's total ownership of the issued share capital of BISB to a minimum of 70%, on the terms and conditions set out in this Offer Document. This Offer becomes unconditional only if the conditions precedent set out in section 3.6 of this Offer Document are fulfilled or waived by NBB.

If at the time you receive this Offer Document, you have sold all your shares in BISB, you should immediately hand this Offer Document to the person to whom the shares have been sold, or to the person authorised by BISB or Bahrain Bourse or other agent through whom the sale was made to effect the sale or transfer in favour of the person to whom the shares have been sold.

This Offer Document has been prepared to comply with the provisions of the Central Bank of Bahrain (the **CBB**) Rulebook, Volume 6, Takeovers, Mergers and Acquisitions Module (the **TMA**).

This Offer Document has been filed with the CBB and it does not constitute a guarantee by the CBB that the facts stated in this Offer Document are accurate or complete.

This Offer to BISB Shareholders resident in countries other than the Kingdom of Bahrain may be affected by the laws of their respective country of residence and shall not be deemed to be an Offer in any jurisdiction where the Offer would violate the laws of such jurisdiction. All the BISB Shareholders wishing to accept the Offer must satisfy themselves as to the due observance of the laws in the jurisdictions relevant to them, including the receipt of any necessary governmental consent or the payment of any taxes due.

The information in this Offer Document regarding the Offeror has been provided by the Offeror. The Financial Advisor, the Receiving Agent and the Legal Advisors make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this Offer Document is, or shall be relied upon as, a promise or representation by the Financial Advisor, the Receiving Agent or the Legal Advisors.

The information in this Offer Document pertaining to BISB has been prepared in good faith based on publicly available information and in cooperation with the management of BISB. Consequently, the Offeror and the Financial Advisor and the Receiving Agent do not accept any liability for the accuracy or completeness of the information in this Offer Document regarding BISB.

All enquiries relating to this Offer Document should be directed to the Offeror. No person has been authorised to provide any information or make any representation on behalf of the Offeror other than as indicated in this Offer Document.

The information contained in this Offer Document is, to the best of the knowledge and belief of the NBB directors who have taken all reasonable care to ensure that such is the case, correct as of the date of this Offer Document. Any new material information will be published and announced promptly as a supplement to this Offer Document in accordance with the provisions of the TMA.

Important: If you are in any doubt about the contents of this Offer Document and the aspects of the Offer, you should consult a licensed securities dealer or licensed institution in securities, a bank manager, solicitor or attorney, professional accountant or any other professional advisor. The fact that this Offer has been filed with the CBB, does not mean that the CBB takes responsibility for the performance of the Offeror or the Offeree, nor the correctness of any statements or representations made by the Offeror.

Copies of this Offer Document and of the Acceptance and Transfer Form can be obtained from the offices of the Receiving Agent, Bahrain Bourse, and the Participating Branches in the Kingdom of Bahrain.

Please refer to section 4 for further details.

FORWARD LOOKING STATEMENTS

This Offer Document contains words or phrases such as **will**, **aim**, **expect**, **anticipate**, **forecast**, **estimate**, **intend**, **future**, **objective**, **project**, **should**, and similar expressions or variations of such expressions which are **Forward-Looking Statements**. Such Forward Looking Statements are based on assumptions and should not be constructed as being indicative of the actual events which will occur or a guarantee of future performance

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1. GLOSSARY

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

Acceptance	means the acceptance of this 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 this Offer Document;
Acceptance and Transfer Form	means the form to be prepared and distributed by BISB and/or the Receiving Agent to BISB Shareholders to participate in the Offer;
Bahrain	means Kingdom of Bahrain;
Bahrain Clear	means Bahrain Clear B.S.C.(c);
BHD	means Bahraini Dinar, the legal currency of the Kingdom of Bahrain;
BHB	means the Bahrain Bourse;
BISB	means Bahrain Islamic Bank B.S.C., commercial registration number 9900 licensed and regulated by CBB as an Islamic retail bank and listed on the BHB;
BISB Shareholder	means 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;
BISB Shares	means BISB's issued and paid up ordinary shares totalling 1,064,058,587 shares;
Board of Directors	means the Board of Directors of National Bank of Bahrain B.S.C.;
Business Day	means a day on which banks, financial institutions and the BHB are open for general business in the Kingdom of Bahrain;
Cash Offer	means 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 this Offer Document collectively through the Cash Offer and the Share Exchange Offer;
CBB	means the Central Bank of Bahrain;
Certified Copy	means 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;
CMSD	means the Capital Markets Supervision Directorate of the CBB;
CSD	means the Central Securities Depositary at Bahrain Clear;
Conditions Precedent	means the conditions set out in section 3.6 of this Offer Document;
Demat	means dematerialised;
EGM	means extraordinary general meeting;

1. GLOSSARY (continued)

FATF	means the Financial Action Task Force;
Final Closing Date	means the Initial Offer Closing Date or date falling on the 15th calendar day from the date of announcement on the Offer having been revised or become unconditional, whichever is later;
Financial Advisor	means Lazard Frères SAS;
Firm Intention	means the notice of firm intention to make an Offer issued by NBB to the board of directors of BISB on 3 November 2019;
GCC	means the Gulf Co-operation 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;
IBAN	means International Bank Account Number;
Initial Offer Closing Date	means 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;
Investor Number (IN)	means a unique number issued by Bahrain Clear for any investor who opens a securities depository account at Bahrain Clear;
Last Practicable Date	means the last date prior to the dispatch of this Offer Document to the board of directors of BISB for the purposes of ascertaining certain information contained herein, being 17 November 2019;
Last Trading Date	means the date two (2) Business Days prior to the Offer Opening Date;
Minor	means a person who is below 21 years of age;
MOICT	means the Ministry of Industry, Commerce and Tourism of the Kingdom of Bahrain;
NBB	means 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;
New NBB Share(s)	means 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) 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;
Offer	means the Offer by NBB, to acquire up to 100% of the issued and paid up ordinary shares of Bahrain Islamic Bank B.S.C. 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 this 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;
Offer Document	means this offer document, prepared in connection with the Offer;
Offer Opening Date	means the date, to be publicly announced, from which the completed Acceptance and Transfer Forms will be received by the Receiving Agent;

1. GLOSSARY (continued)

Offer Period	means the period beginning on the Offer Opening Date and ending on the Final Closing Date;
Offer Acceptance / Rejection Announcement Date	means 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;
Offeree	means Bahrain Islamic Bank B.S.C.;
Offeree Board Circular	means the circular to be sent by the board of directors of BISB to the BISB Shareholders in accordance with TMA Rule 2.7.7 within a maximum period of twenty-one (21) calendar days from the receiving date of this Offer Document containing the information required to be provided to the BISB Shareholders in accordance with the TMA. The CBB's consent is required if the Offeree Board Circular may not be posted in this period;
Offeror	means National Bank of Bahrain B.S.C.;
Participating Branches	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;
Receiving Agent	means 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;
Securities Account	means an account with a brokerage firm authorised by Bahrain Bourse;
Settlement Date	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;
Share Exchange Offer	means 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 Bahrain Islamic Bank B.S.C. 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 this Offer Document collectively through the Cash Offer and the Share Exchange Offer;
Share Exchange Ratio	means 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;
Suspension of Trading Date for BISB Shares	means 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;
TMA	means the Takeovers, Mergers and Acquisitions Module of the CBB Rulebook, Volume 6; and
Unconditional Date	means the date on which the Offer becomes or is declared unconditional as to Acceptances

2. RESOLUTIONS AND APPROVALS

2.1 Board of Directors

This Offer is made pursuant to the resolutions adopted by the Board of Directors at their meeting held on 23rd October 2019. The Board of Directors resolved to:

2.1.1 authorise the acquisition of up to 100% of the issued and paid up ordinary shares of BISB, provided that the Offer becomes unconditional after the fulfilment, or waiver by NBB, of the Conditions Precedent under the offering documents, including receipt of Acceptances from the holders of ordinary shares in BISB such that NBB's holding in BISB post-offer is at least 70% of the issued share capital of BISB;

2.1.2 authorise the financing of the cash element of the purchase price for acceptances of the Cash Offer through internal accruals;

2.1.3 authorise the acquisition of up to 100% of the BISB Shares through (i) the Cash Offer price of up to BHD 0.117 per share in BISB; and (ii) the Share Exchange Offer being offered on the basis of a share exchange ratio of up to 0.167 new shares in the Bank for each BISB Share, in each case calculated on a cum dividend basis and subject to suitable adjustment formulae in respect of dividends and bonus share distributions provided that the Offer becomes unconditional after the fulfilment, or waiver by NBB, of the Conditions Precedent;

2.1.4 convene an extraordinary general assembly meeting of the shareholders of NBB to approve the capital increase and the issue of up to approximately 145,000,000 new shares in the issued share capital of NBB to be offered in exchange for the BISB Shares; and

2.1.5 recommend to the shareholders of NBB that they waive their statutory rights of pre-emption over the New NBB Shares in favour of those shareholders of BISB accepting the Share Exchange Offer provided that the Offer becomes unconditional after the fulfilment of, or waiver by NBB, of the Conditions Precedent.

2.2 Extraordinary General Assembly of Offeror

The Offeror has convened an EGM of its shareholders in connection with the increase of capital pursuant to the Share Exchange Offer for 24 November 2019. The agenda for the EGM has been published on 31 October 2019 in accordance with the laws and regulations of Bahrain and is available on the website of the Bahrain Bourse at https://bahrainbourse.com/national-bank-of-bahrain-bsc----nbb-extraordinary-general-meeting-egm.

2.3 CBB - Capital Market Supervision Directorate

Copies of the Board of Director's resolutions and this Offer Document have been filed with the CMSD of the CBB. The Offeror has obtained a no objection letter from the CMSD dated 24 November 2019 stating it has no objection to the use of the Offer Document for the purpose of the Offer.

3. THE OFFER

The Board of Directors 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.

3.1 The Offeree and Securities for which the Offer is made

3.1.1 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.

3.1.2 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.

3.2 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.

3.3 Consideration for the Offer

3.3.1 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.

3.3.2 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.

3.3.3 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.

3.3.4 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.

3.4 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. one (1) Business Day after the Suspension of Trading Date for BISB Shares, will be eligible to receive the Offer.

3.5 Suspension of trading

Trading in BISB Shares will be suspended from 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.

3.6 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:

3.6.1 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;

3.6.2 Receipt of all regulatory and statutory approvals in connection with the Offer;

3. THE OFFER (continued)

3.6 Conditions Precedent to the Offer (continued)

3.6.3 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;

3.6.4 BISB does not undertake any of the following from the date of the Firm Intention until the expiration of the Offer Period:

(a) issue any shares and /or distribute cash dividends;

(b) 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;

(c) other than in the normal course of business, sell, dispose of or acquire assets;

(d) 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;

(e) 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;

(f) acquire any company, partnership, other business organization or division thereof, or enter into any joint venture, or strategic alliance;

(g) 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;

(h) make any changes in the memorandum and articles of association or nature of bank licence or registered address of BISB;

(i) 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;

(j) enter into any contract which is not in the ordinary course of business with any related party;

(k) enter into any formal or informal agreement, or otherwise make a commitment to do any of the foregoing; or

(l) 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 3.7 below.

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.

3. THE OFFER (continued)

3.7 Offer timeline and key dates

The key dates for the Offer will be determined in accordance with the CBB's regulations and, in particular, the TMA. Certain of the key dates are to be determined by reference to dates which are not, as at the date of this Offer Document, possible to determine because, for example, they are linked to the date the board of directors of BISB publishes its Offeree Board Circular in accordance with the TMA or because they relate to the date upon which conditions to the Offer are satisfied or waived. In such case, these dates are referenced as "To be announced" in the table below and announcements will be made in accordance with the CBB regulations to the BISB Shareholders as these dates are determined.

Date of Firm Intention	3 November 2019
Last Practicable Date	17 November 2019
Date of this Offer Document	24 November 2019
Date for convening EGM of Offeror	24 November 2019
Latest date for posting of the Offeree Board Circular	15 December 2019. Under TMA 2.7.7, BISB must send to all its shareholders within a maximum period of twenty-one (21) calendar days from the receiving date of this Offer Document, the Offeree Board Circular. The CBB's consent is required if the Offeree Board Circular may not be posted within this period
Last Trading Date	To be announced, being the date two (2) Business Days prior to the Offer Opening Date
Suspension of Trading Date for BISB Shares	To be announced, being the date one (1) Business Day prior to the Offer Opening Date
Offer Opening Date	To be announced
Initial Offer Closing Date	To be announced, being the date which is fifteen (15) calendar days from the Offer Opening Date, subject to extension and subject to the Final Closing Date
Unconditional Date	The date on which the Offer becomes or is declared unconditional as to Acceptances
Final Closing Date	The Initial Offer Closing Date, or fifteen (15) calendar days from the date the Offer is revised or announced as unconditional, whichever is later. This is to be announced if the date differs from the Initial Offer Closing Date
Last date upon which the Offer can be declared unconditional as to Acceptances (i.e. latest possible date for Unconditional Date based on any extensions to the Initial Offer Closing Date being announced)	23 January 2020
Offer Acceptance/Rejection Announcement Date	One (1) Business Day after the Final Closing Date
Settlement Date	To be announced - within seven (7) calendar days from the Final Closing Date.

3. THE OFFER (continued)

3.8 Offer acceptance procedures

3.8.1 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.

3.8.2 Please refer to Section 4 'Procedures for accepting the Offer' of this Offer Document for further details.

3.9 Rights of the New NBB Shares

3.9.1 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.

3.9.2 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.

3.9.3 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.

3.10 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.

4. PROCEDURES FOR ACCEPTING THE OFFER

4.1 Form submission

4.1.1 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 Applicant 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;

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.

4. PROCEDURES FOR ACCEPTING THE OFFER (continued)

4 .1 Form submission (continued)

(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.

4.1.2 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.

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 Investor Number 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.

4. PROCEDURES FOR ACCEPTING THE OFFER (continued)

4 .1 Form submission (continued)

4.1.3 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 4.1.12 during the Offer Period;

ii the Participating Branches of the Offeror listed in section 4.1.12 during the Offer Period; or

iii the Participating Branches of the Offeree listed in section 4.1.12 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.

4.1.4 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.

4.1.5 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.

4.1.6 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.

4.1.7 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.

4.1.8 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 4.1.12 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.

4. PROCEDURES FOR ACCEPTING THE OFFER (continued)

4.1 Form submission (continued)

4.1.9 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 4.1.1 to 4.1.8(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.

4.1.10 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 sections 4.1.1 to 4.1.8(b) 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.

4.1.11 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 and consent to the use and sharing of the BISB Shareholder's personal data including sensitivity personal data in accordance with such privacy notice.

4.1.12 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 4.1.1 to 4.1.8(b) (as applicable) above:

Receiving Agent's Addresses, Contact Details and Opening Times

No.	Name	Address	Telephone Number	Opening Days	Operating Hours
1	SICO B.S.C.(c) – Receiving desk at the Bahrain Bourse	4th Floor, Harbour Gate, Bahrain Financial Harbour, Manama, Kingdom of Bahrain	(973) 17 515022	Sunday to Thursday	9:00 am-1:00 pm

4. PROCEDURES FOR ACCEPTING THE OFFER (continued)

4 .1 Form submission (continued)

Participating Branches of the Offeror – Addresses, Contact Details and Opening Times

No.	Branch Name	Address	Telephone Number(s)	Opening Days	Morning Hours	Evening Hours
1	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	
2	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
3	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	
4	NBB - Atrium Mall Branch	The Atrium Mall & Towers, Ground floor, Unit GF09 & GF10, Building 1224, Road 2719, Saar 527, Kingdom of Bahrain Saar, Northern Governorate, Kingdom of Bahrain	(973) 17 69 8899	Sunday to Thursday	9:00 am-5:00 pm	
5	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

4. PROCEDURES FOR ACCEPTING THE OFFER (continued)

4 .1 Form submission (continued)

Participating Branches of the Offeree – Addresses, Contact Details and Opening Times

No.	Branch Name	Address	Telephone Number(s)	Opening Days	Morning Hours	Evening Hours
1	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	
2	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
3	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	
4	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	
5	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

4. PROCEDURES FOR ACCEPTING THE OFFER (continued)

4 .1 Form submission (continued)

4.1.13 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.

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

4.2 Purchase of BISB shares outside the Offer

NBB shall not purchase BISB Shares outside the Offer. Furthermore, NBB will not deal in BISB Shares during the Offer Period.

4.3 Settlement and fractional shares

4.3.1 Cash Offer:

(a) For those BISB Shareholders accepting the Cash Offer, the settlement shall be effected on the Settlement Date by wire transfer in BHD from an account held with the Offeror to the account of the BISB Shareholder indicated on the Acceptance and Transfer Form unless:

i the BISB Shareholder has not provided sufficient account details to process such transfer (such as an absence of an IBAN or account number for an account in the name of the BISB Shareholder); or

ii has elected in the Acceptance and Transfer Form to collect a manager's cheque as an alternative to the wire transfer.

(b) Where the BISB Shareholder has not provided sufficient account details to process such transfer (such as an absence of an IBAN number for an account in the name of the BISB Shareholder) or has elected in the Acceptance and Transfer Form to collect a manager's cheque as an alternative to the wire transfer, a manager's cheque will be made available for collection by the relevant BISB Shareholder from the Offeror's Main Branch at Building 120, Government Road, Block 316 Manama, Kingdom of Bahrain during its opening hours from the Settlement Date to the date falling six months after the Settlement Date.

(c) No other modes of payment shall be effected and all settlement shall be net of any bank or related charges. All charges such as wire transfer charges, processing fees, collection charges, foreign currency conversion charges, managers cheque charges, special clearing changes shall be borne by the BISB Shareholder.

4.3.2 Share Exchange Offer:

(a) For those BISB Shareholders accepting the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BISB Shareholder, settlement will be made by exchanging the New NBB Shares in electronic form, for BISB Shares as per the prescribed Share Exchange Ratio. Such exchange shall be effected on the Settlement Date.

(b) BISB Shareholders who have accepted the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BISB Shareholder will be notified of their allotment by an allotment notice, upon which the BISB Shares held by them will be transferred to NBB and New NBB Shares credited to their account with the BHB (provided that the Offer becomes unconditional after the fulfilment, or waiver by NBB, of the Conditions Precedent).

4. PROCEDURES FOR ACCEPTING THE OFFER (continued)

4.3 Settlement and Fractional Shares (continued)

(c) Fractional shares will not be issued. Any fractional shares resulting from applying the Share Exchange Ratio will be rounded to the nearest integer on the basis of the first decimal (tenths) i.e. fractional shares of up to 0.4 will be rounded down to the previous integer and fractional shares of between to 0.5 and 0.9 will be rounded up to next integer.

4.3.3 BISB Shareholders who accept this Offer need to fulfil the conditions prescribed in the acceptance procedure above in order to facilitate their rights and obligations being performed. Settlement of the consideration to which any BISB Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of this Offer Document. Announcements of the proposed Settlement Date and any revisions to the Settlement Date necessitated by any changes to the Offer Period or Offer timetable will be notified to the BISB Shareholders.

4.3.4 Allotment notices for each BISB Shareholder that has successfully participated in the Share Exchange Offer will be made available for collection at Bahrain Clear during normal working hours starting from the Settlement Date.

4.4 Tax

4.4.1 As at the date of this document there is no income, withholding or capital gains taxes payable under existing laws in the Kingdom of Bahrain. Corporate income tax is only levied on oil, gas and petroleum companies at a flat rate of 46%. This tax is applicable to any oil company conducting business activity of any kind in Bahrain, including oil production, refining and exploration, regardless of the company's place of incorporation. There are no currency or exchange control restrictions currently in force under the laws of Kingdom of Bahrain and the free transfer of currency into and out of the Kingdom of Bahrain is permitted subject to anti – money laundering and international regulations in force from time to time.

4.4.2 BISB Shareholders should consult their professional advisors on the possible tax consequences of acceptance of the Offer under the laws of their countries of citizenship, residence, ordinary residence or domicile.

4.5 Prior contacts

4.5.1 On 31 January 2019, NBB and BISB executed a non-disclosure agreement with each other in connection with the potential Offer.

4.5.2 On 30 May 2019, NBB submitted an application to CBB seeking its approval to increase its shareholding in BISB as a controller of BISB.

4.5.3 On 30 June 2019, CBB communicated its approval to NBB increasing its shareholding in BISB as a controller of BISB and also for its acquisition of up to 100% of the BISB Shares.

4.5.4 On 22 July 2019, NBB communicated its non-binding intent to make a voluntary takeover offer for the issued share capital of BISB subject to a confirmatory due diligence exercise on BISB and all necessary regulatory, board and shareholder approvals. Subsequent updates were provided on 22 August 2019, 22 September 2019 and 22 October 2019.

4.5.5 On 3 November 2019, NBB communicated to BISB's board of directors its Firm Intention to make an Offer.

5. THE OFFEROR

5.1 National Bank of Bahrain B.S.C.

5.1.1 NBB is a public shareholding company incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957 and is licensed and regulated by the CBB as a conventional retail bank.

5.1.2 NBB does not have any subsidiaries although it holds a significant number of shares in BISB, The Benefit Company B.S.C.(c) and The Bahrain Liquidity Fund, as well as sponsoring RE Property S.P.C. which is used to register real estate interests on behalf of NBB.

5.2 Capital and major shareholders

5.2.1 NBB's authorised capital currently stands at BHD 250,000,000 with an issued and paid up capital of BHD 154,329,258 divided into 1,543,292,583 ordinary shares with a nominal value of 100 fils each. The following shareholders own more than 5% of the issued share capital of NBB:

Major shareholders	Percentage owned
Bahrain Mumtalakat Holding Co.	44.18%
Social Insurance Organization	10.88%

5.2.2 Since 31 December 2018, NBB has issued 140,299,326 ordinary shares and has not repurchased any ordinary shares. NBB has issued 127,544,841 and 115,949,856 ordinary shares in 2018 and 2017 respectively.

5.2.3 Save as described in section 5.2.2, NBB did not reorganise its capital during the two previous financial years.

5.2.4 Reference is made to section 3.9 of this Offer Document which sets out a description of certain of the rights that will be afforded to the New NBB Shares in relation to voting, dividends and distributions of capital.

5.3 Board of directors

NBB's Board of Directors currently comprises eleven board members, as follows:

No	Board member	Title
1	Mr. Farouk Yousif Khalil AlMoayyed	Chairman
2	Dr. Essam Abdulla Yousif Fakhro	Vice Chairman
3	Mr. Fawzi Ahmed Ali Kanoo	Vice Chairman
4	Mr. Khalid Yousif Abdul Rahman Abdul Rahim	Director
5	Mr. Husain Sultan Sultan AlGhanem	Director
6	H.E. Khalid Omar Al Romaihi	Director
7	Sh. Rashed Bin Salman Al Khalifa	Director
8	Ms. Hala Ali Husain Yateem	Director
9	Mr. Yousif Abdulla Akbar Alireza	Director
10	Mr. Rishi Kapoor	Director
11	Mr. Mohammed Tareq Mohammed Sadeq Mohamed Akbar	Director

Sh. Rashed Bin Salman Al Khalifa is an interested director through representing a controlling shareholder of BISB on the board of NBB. Dr. Essam Abdulla Yousif Fakhro and Mr. Khalid Yousif Abdul Rahman Abdul Rahim represent NBB on BISB's Board of Directors. Further information in relation to cross-holdings is set out in section 8 below.

5.3.1 **Mr. Farouk Yousif Khalil AlMoayyed** – Chairman

Mr Farouk Yousif Khalil AlMoayyed was appointed to the board in 1997. He is currently the Chairman of the Nomination and Remuneration Committee and the Donations and Contributions Committee. He is also the Chairman for Yousif Khalil Al Moayyed & Sons Co B.S.C.(c), Al Moayyed International Group B.S.C.(c), Ashrafs W.L.L., Bahrain Duty Free Co. W.L.L., Gulf Hotels Group B.S.C., Arab Academy for Research & Studies (Ahlia University) B.S.C.(c) and Bahrain National Holding Company B.S.C. He is a director for the Economic Development Board.

5. THE OFFEROR (continued)

5 .3 Board of directors (continued)

5.3.2 **Dr. Essam Abdulla Yousif Fakhro** – Vice Chairman

Dr. Essam Abdulla Yousif Fakhro was appointed to the board in 2008 and is the Chairman of the Executive committee and a member of the Nomination and Remuneration Committee and the Donations and Contributions Committee. He also serves as Chairman for Bahrain Cinema Company B.S.C., Abdulla Yousif Fakhro and Sons B.S.C.(c) and Bahrain Islamic Bank B.S.C.

5.3.3 **Mr. Fawzi Ahmed Ali Kanoo** – Vice Chairman

Mr. Fawzi Ahmed Ali Kanoo was appointed to the board in 2010 and currently serves as a member of the Executive Committee and the Donations and Contributions Committee. He is currently the Chairman of Abdulrahman Jassim Kanoo Co. W.L.L. and Executive Chairman of Bahrain Ship Repairing and Engineering Co B.S.C. In addition, he is also the Deputy Chairman of Yusuf Bin Ahmed Kanoo (Holdings) Co. W.L.L., APM Terminals Bahrain B.S.C. and Gulf Hotels Group B.S.C.

5.3.4 **Mr. Khalid Yousif Abdul Rahman Abdul Rahim** – Director

Mr. Khalid Yousif Abdul Rahman Abdul Rahim was appointed to the board in 2001 and is Chairman to the Audit Committee. He is also the Chairman for The Food Supply Co. Ltd. W.L.L. and Deputy Chairman for Awal Dairy Company W.L.L. He is also a director and member of the Executive Committee and Audit Committee for Bahrain Ship Repairing and Engineering Co. B.S.C. He is a director and member of the Executive Committee of Bahrain Islamic Bank B.S.C. He currently acts as Chief Executive Officer for the National Transport Co. S.P.C.

5.3.5 **Mr. Husain Sultan Sultan AlGhanem** – Director

Mr. Husain Sultan Sultan AlGhanem was appointed to the board in 2004. He is a member of the Executive Committee and is the Undersecretary of Human Resources for the Prime Minister's Court.

5.3.6 **H.E. Khalid Omar Al Romaihi** – Director

H.E. Khalid Omar Al Romaihi was appointed to the board in 2014 and is the Chairman of the Risk Committee. He is currently the CEO of Bahrain Mumtalakat Holding Company B.S.C.(c) and Chairman of the Bahrain Real Estate Investment (Edamah) B.S.C.(c) and Bahrain Development Bank B.S.C.(c). He is also a director of the Economic Development Board, Bahrain Mumtalakat Holding Company B.S.C.(c), National Oil and Gas Authority and The National Oil and Gas Holding Company B.S.C(c).

5.3.7 **Sh. Rashed Bin Salman Al Khalifa**– Director

Sh. Rashed Bin Salman Al Khalifa was appointed to the board in 2014 and is a member of the Executive Committee and the Nomination and Remuneration Committee. Sh. Rashed Bin Salman Al Khalifa is a retired banker and an independent consultant for investment and banking services.

5.3.8 **Ms. Hala Ali Husain Yateem** – Director

Ms. Hala Ali Husain Yateem was appointed to the board in 2018 and is a member of the Audit Committee and the Donations and Contributions Committee. She is currently the director for Bahrain Real Estate Investment (Edamah) B.S.C.(c), Ali Hussain Yateem Holding Co. W.L.L and A.M. Yateem Brothers W.L.L.

5.3.9 **Mr. Yousif Abdulla Akbar Alireza**– Director

Mr. Yousif Abdulla Akbar Alireza was appointed to the Board in 2018 and is a member of the Executive Committee and the Nomination and Remuneration Committee. He is the founder of ARP Global Capital Limited (DIFC), an alternative asset management firm. He was the CEO of Noble Group Holdings Limited, the largest Asian commodity firm and a Fortune 100 company from 2012 to 2016 after working for 20 years with Goldman Sachs Group Inc. where his last role was Co-President of Asia.

He is currently a director for the Economic Development Board, Bahrain Ship Repairing and Engineering Co B.S.C., the Global Board of Room to Read and the Centre for Contemporary Arab Studies Georgetown University.

Mr. Yousif is the first Arab Partner in Goldman Sachs Group Inc. and the only Arab to ever be elected to the firm's Global Management Committee.

5. THE OFFEROR (continued)

5 .3 Board of directors (continued)

5.3.10 **Mr. Rishi Kapoor** – Director

Mr. Rishi Kapoor was appointed to the board in 2018 and is a member of the Risk Committee. In addition, he is the Co-Chief Executive Officer of Investcorp Holdings B.S.C., responsible for overseeing activities across North America, Europe, India and the Middle East, covering private equity, real estate investments, credit management and absolute return investments. He is the Chairman of Investcorp's Investment Committees and is a member of the Executive Committee, Operating Committee and the Financial Risk Management Committee.

He is a director for Duke University's regional advisory board for the Middle East, Gulf Air Group Holding B.S.C.(c), Bahrain Airport Company S.P.C. and Gulf Aviation Academy B.S.C.(c).

In 2018, Forbes Middle East recognized Rishi as a top Indian leader in the Arab world.

5.3.11 **Mr. Mohammed Tareq Mohammed Sadeq Mohamed Akbar** – Director

Mr. Mohammed Tareq Mohammed Sadeq Mohamed Akbar was appointed to the Board in 2018 and is a member of the Audit Committee. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He is a director for Ahli United Bank K.S.C.P., Ahli United Bank (Egypt) S.A.E., Bahrain International Golf Course Company B.S.C.(c) and Al Zayani Investments Co B.S.C.(c). He is also a director and Chairman of the Audit Committee for Al Baraka Bank (Pakistan) Limited.

5.4 Management team

The current management team of NBB is:

No	Name of Management Personnel	Title
1	Jean-Christophe Durand	Chief Executive Officer
2	Abdul Aziz Abdulla Al Ahmed	Chief Executive – Strategic Accounts
3	Hussain Sayed Ali Al Hussaini	Chief Executive – Treasury, Capital Markets & Wealth Management
4	Dana A Buheji	Chief Human Resources Officer
5	Yaser Alsharifi	Chief Strategy Officer
6	Hisham Al Kurdi	Chief Executive – Corporate Institutional & Investment Banking
7	Iain Blacklaw	Chief Operating Officer
8	Russell Bennett	Chief Financial Officer
9	Gaby El Hakim	Chief Legal Officer and Corporate Secretary
10	Isa Maseeh	Chief Risk Officer
11	Richard Hicks	Chief Marketing Officer
12	Bruce Wade	Chief Executive - Financial Restructuring
13	Subah Al Zayani	Head of Retail Banking

5.4.1 **Jean-Christophe Durand – Chief Executive Officer**

Mr. Jean-Christophe Durand joined NBB as CEO in December 2016 where he continues to focus on reinforcing and expanding the bank's role as a driver for economic growth and development. He brings to his role over 37 years of international and regional banking and finance experience gained from senior leadership roles at leading global banking institutions of which 30 years are in the GCC. Previously, and for 20 years, he was the CEO of BNP Paribas Middle East and Africa region for Corporate and Institutional Banking and Asset Management. Mr. Durand holds several board positions locally and regionally. He is a director for Gulf Air B.S.C.(c), and Bahrain Telecommunications Company (Batelco) B.S.C., the Chairman of Batelco's Executive Committee and the Deputy Chairman of Batelco's Nomination, Remuneration, Donations and Corporate Governance Committee.

He is also the Vice Chairman for Umniah Telecommunication Company in Jordan, and a director for Bahrain Institute of Banking and Finance (BIBF) and the Chairman of the French Chamber of Commerce and Industry in Bahrain (FCCIB). Mr. Durand received the 'Legion d'Honneur' from the Government of France and is a graduate from ESSEC (Ecole Superieure des Sciences Economiques et Commerciales) in Paris.

5. THE OFFEROR (continued)

5 .4 Management team (continued)

5.4.2 **Abdul Aziz Abdulla Al Ahmed – Chief Executive** – Strategic Accounts

Mr. Abdul Aziz joined NBB in 1974. He has 44 years of banking experience at NBB. He assumed his present position in 2019. He is the Vice Chairman of the Automotive Board for National Motor Company W.L.L. (NMC); Tas'heelat Automotive Company S.P.C. (TAC); Tas'heelat Car Leasing Company W.L.L. (TCL), Bahrain; and Tas'heelat for General Trading and Cars W.L.L. (TGTC) Erbil Kurdistan, Republic of Iraq. He holds an Executive Diploma from University of Virginia, USA.

5.4.3 **Hussain Sayed Ali Al Hussaini –** Chief Executive – Treasury, Capital Markets & Wealth Management

Mr. Al Hussaini joined NBB in 1982 and assumed his present position in 2017. He has 36 years of experience at NBB. He serves as Vice Chairman of the Board of Directors and Vice Chairman of the Investment Committee of SICO B.S.C.(c). He is a Board Member and Executive Committee Chairman of Esterad Investment Company B.S.C.; Chairman of the Nomination and Remuneration Committee of Esterad; Member of the Board of Trustees in Bahrain Polytechnic; and Member of the Deposit Protection and Unrestricted Investor Accounts. He holds an MBA in Marketing and Management from DePaul University, USA and a B.A. in Economics, from Concordia University, Canada.

5.4.4 **Dana A Buheji** – Chief Human Resources Officer

Ms. Buheji joined NBB in 2017 as the Chief Human Resource Officer. Her focus lies on ensuring the Bank effectively maximises its talent base, invests in the training and development of staff and effectively recruits and retains staff to support the Bank's efforts to grow and diversify. She has 18 years of extensive experience with Bahrain Economic Development Board (EDB), Bahrain Mumtalakat Holding Company B.S.C.(c), Ministry of Finance and National Economy, and Ahli United Bank B.S.C. She serves as a Member of HR and Remuneration Committee of Bahrain Association of Banks (BAB). She holds a Certificate in Personnel Practice (CPP), London, UK and B.A. in Commerce, Concordia University, Canada.

5.4.5 **Yaser Alsharifi** – Chief Strategy Officer

Mr. Alsharifi joined NBB in 2017 as the Chief Strategy Officer, responsible for innovation, strategy development and implementation, the project management office, business development, as well as the operations in Saudi Arabia and the United Arab Emirates. Mr. Alsharifi previously worked with Al Rajhi Holdings and Ernst & Young. He has 24 years' experience in investment management and corporate finance across the GCC, Europe and the US. Additionally, Mr. Alsharifi serves as the Chairman of Danat Bahrain Institute for Pearls and Gemstones. He is a board member of Bahrain Real Estate Investment (Edamah) B.S.C.(c), Bahrain Bourse B.S.C., Bahrain Clear B.S.C.(c), and Bahrain Car Parks Company B.S.C. He holds a B.A. in Business Administration from the University of Massachusetts at Amherst.

5.4.6 **Hisham Al Kurdi** – Chief Executive – Corporate Institutional & Investment Banking

Mr. Al Kurdi joined the Bank in 2017 as the Chief Executive – Corporate Institutions and Investment Banking, bringing to his role more than 21 years of local and international experience in capital markets and institutional coverage. In his past occupation, Mr. Al Kurdi assumed the post of the Head of Capital Markets for the MEA region and was a member of the CIB regional board and executive committee. He holds a BEng Engineering in Systems Control from the University of Huddersfield, UK.

5.4.7 **Iain Blacklaw** – Chief Operating Officer

Mr. Blacklaw joined NBB in 2017 bringing to his role more than 30 years of experience as an international banking and finance executive who has built and run large-scale operations across various sectors including banking and technology. His focus is on helping NBB strengthen its structure and foundation to create a more competitive bank. This includes realising greater efficiencies and the streamlining of operations through the optimisation and modernisation of practices both on the brick and mortar level and through the adoption of the latest technologies.

5.4.8 **Russell Bennett** – Chief Financial Officer

Mr. Bennett joined NBB in 2018 as the Chief Financial Officer, bringing to his role more than 20 years' of banking and finance expertise. He is a UK qualified Chartered Accountant who has previously worked for Gulf International Bank, the National Bank of Kuwait and Ernst & Young. He is a member of, and the secretary for, the Bahrain Association of Banks' International Standards Committee. At NBB, he is a member of Asset/ Liability Committee. His focus is to strengthen the Bank's financial and analytical credentials. This includes introducing enhanced data analytics, and ensuring adoption of the latest technologies to provide business insight. He holds a BSc (Hons) in Mathematics and Economics.

5. THE OFFEROR (continued)

5.4 Management team (continued)

5.4.9 **Gaby El Hakim** – Chief Legal Officer and Corporate Secretary

Mr. Gaby El Hakim joined NBB in 2017 as the General Counsel and Corporate Secretary. He previously worked with GFH Financial Group B.S.C. and BNP Paribas and has over 17 years' of experience practicing law in areas including corporate and investment banking, Islamic finance, structured finance, capital markets, private equity, regulatory investigation and dispute resolutions. He is responsible for handling all legal matters and advising management and the Board with respect to all aspects of the business. Mr. El Hakim is the Vice Chairman of the Lawyer's Committee of ICC Bahrain, Chamber of Industry and Commerce, a member of ICC Paris Commission on Arbitration and ADR and serves as a board member of ICC Bahrain. He holds an LLM in Banking and Finance from Osgood Hall Law School, York University, Canada, LLB (Licence en Droit Libanais) from Sagesse University School of Law, Beirut, Lebanon and several postgraduate qualifications.

5.4.10 **Isa Maseeh** – Chief Risk Officer

Mr. Maseeh joined NBB in 2017 as Deputy Chief Risk Officer and has more than 20 years of banking experience spanning commercial and investment banking in Bahrain. Prior to joining NBB, Mr. Maseeh was the Group Chief Risk Officer of Al Salam Bank Bahrain B.S.C. in addition to having held various other senior risk management positions with Islamic and conventional banks including United Gulf Bank B.S.C.(c), BMI Bank B.S.C.(c).and GFH Financial Group B.S.C. Mr. Maseeh has an MBA from DePaul University, USA and a Bachelor of Commerce from Concordia University, Canada. He is also a holder of the Chartered Financial Analyst (CFA) and Professional Risk Manager (PRM) designations.

5.4.11 **Richard Hicks** – Chief Marketing Officer

Mr. Hicks joined NBB in 2016 as the Chief Marketing Officer after more than 30 years of banking and marketing experience with NatWest, RBS and HSBC where he was part of the Global Marketing Team based in the London head office working across all business lines and geographies. His specialist areas are digital marketing, customer experience and digital transformation. He leads the marketing and communications team responsible for developing the NBB brand and supporting the business' goals through engaging marketing events and campaigns, targeted sponsorships and a sophisticated PR and communications strategy. He places customer insight and user experiences at the heart of the Bank's initiatives with a growing focus on digital channels. He is a long-standing member of the Chartered Institute of Marketing. He has a BA (Hons) degree in Economics from De Montfort University in UK.

5.4.12 **Bruce Wade – Chief Executive** - Financial Restructuring

Mr. Wade joined NBB in 2014. He brings to NBB more than 35 years of banking experience including roles at Saudi Hollandi Bank; Riyad Bank; Citibank; and Bank of Tokyo Group. He is Chairman of the Risk Management Committee at the Bahrain Association of Banks. Mr. Wade holds an MBA and Bachelor of Applied Science from Queensland University of Technology, Australia and a Graduate Diploma, Applied Finance and Investment from Securities Institute of Australia. He is also a Fellow Australian Institute of Company Directors, Fellow Financial Services Institute of Australasia, Member Finance and Treasury Association Limited, and Senior Certified Treasury Professional.

5.4.13 **Subah Al Zayani** – Head of Retail Banking

Mr. Subah Al Zayani joined NBB in 2019 as Head of Retail Banking. He has more than 12 years' experience in this field having held a number of senior positions at some of Bahrain's largest local and regional banks. Most recently, he served as Deputy Head of Retail Banking at Kuwait Finance House-Bahrain B.S.C.(c). Mr. Al Zayani will now lead NBB's ongoing efforts to innovate its retail operations in order to gain more market share and further elevate the customer journey and enhance the delivery of market leading financial products and services across its digital platforms and branch network, which remains the largest in Bahrain. Subah Al Zayani holds a Master's Degree from the American University, USA.

5. THE OFFEROR (continued)

5.5 Nature of business

Established in 1957 as Bahrain's first locally owned Bank, NBB has grown steadily to become the country's leading provider of retail and commercial banking services. With a major share of the total domestic commercial banking market and the largest network of branches and ATMs, NBB plays an important role in the local economy.

5.6 Current expansion initiatives

5.6.1 NBB has recognised the ever-increasing role of technology in the delivery of services to its customers. Hence, it has embarked on a three-year major investment programme in IT, aiming to replace its existing technologies and further raise the level of these services through more reliability and fewer systems issues.

5.6.2 To achieve its digital mandate, NBB has recognised that it needs to start from within and therefore has begun deploying next generation solutions to automate internal processes and documentation. Based on the plan that was set at the end of 2017, NBB has achieved significant milestones in upgrading its IT infrastructure including investment in a new core banking system, digital platforms for the retail and corporate sectors and technology in the channels such as VTMs and CDMs. NBB has also taken the lead on key initiatives to align with the digital strategy with being the first bank to comply with open banking. These all compliment the internal automation and optimisation processes in progress.

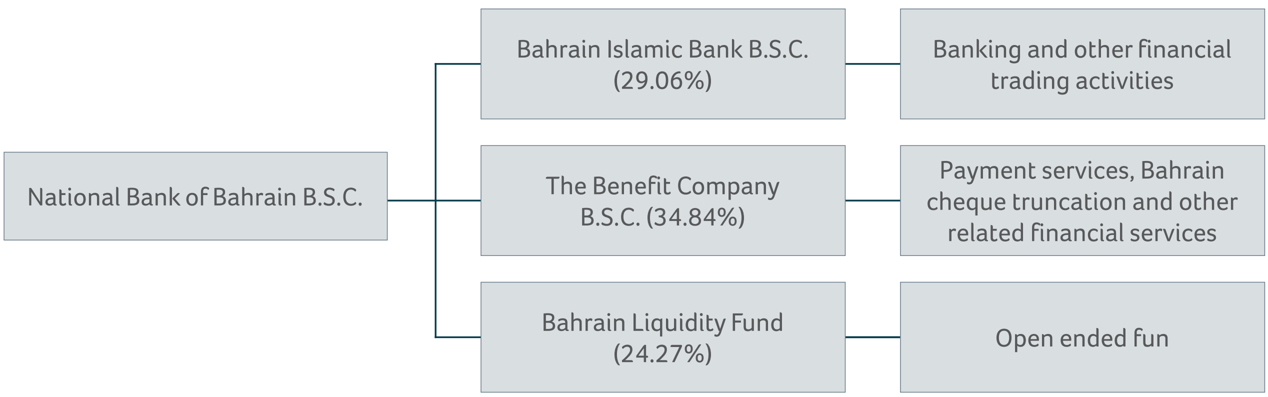
5.6.3 NBB has embarked on its plan to remodel its branch systems, including deploying more self-service devices at each branch and better queue management technologies that will drive improvements to customer waiting times.

5.6.4 A comprehensive infrastructure modernisation programme has started to upgrade all of its hardware. NBB has begun to migrate some of its non-customer systems onto the Cloud, in line with Bahrain's vision to be Cloud first.

5.6.5 Significant investment in key banking systems is underway to support NBB's branches to better serve its customers, for its business lines to more clearly understand its customers and their needs, and which will provide a greater level of security and control over customer data.

5.7 Corporate structure

The following structure chart depicts NBB's associated companies, which is determined by holding a significant minority ownership (i.e. over 20% of the issued share capital) in incorporated entities in the Kingdom of Bahrain.



5. THE OFFEROR (continued)

5.8 Registered addresses and contact information

The Offeror	National Bank of Bahrain B.S.C. P.O. Box 106 Manama, Kingdom of Bahrain Tel: (973) 1722 8800 Web: www.nbbonline.com Email: IR@nbbonline.com
Financial Advisor to the Offeror	Lazard Frères SAS 121, Boulevard Haussmann Paris Cedex 08 Paris 75382 Tel: (33) 1 4413 01 11 Fax: (33) 1 4413 03 78

5.9 Summary of material contracts

We set out below a list of the material contracts entered into by NBB in the last two financial years. For the purposes of this section, material contracts were defined as any contracts entered into with a value in excess of 1% of NBB's net profit in the last financial year but excluding any financing and lending arrangements entered into the ordinary course of business with NBB's clients and customers.

5.9.1 NBB entered into a contract with Tata Consultancy Services on 19 March 2019 for a statement of work in the implementation of a core banking solution.

5.9.2 NBB signed a contract with Almoayyed Air Conditioning W.L.L on 3 March 2019, for an MEP plant replacement.

5.9.3 On 4 April 2019, a contract to maintain any hardware and software requirements for the core banking system was entered into with Bahrain Business Machines W.L.L.

5.9.4 On 21 May 2019, NBB entered into a license agreement with Oracle Systems Limited for the new core banking system project.

5.9.5 A construction agreement was signed on 13 June 2019 with Almoayyed Interiors for the fit outs in relation to Level 1 to Level 4 of the new NBB Tower.

5.9.6 On 9 April 2019, NBB engaged Tata Consultancy Service Ltd for the work maintenance services for the core banking software, TCS BaNCS.

5.9.7 NBB signed a digital platform license agreement with Backbase Europe BV on 21 June 2019.

5.9.8 On 21 July 2019, NBB entered in a statement of work consultation services agreement with Accenture Middle East BV-Bahrain Branch for core banking solutions.

5.9.9 On 26 June 2018, NBB entered into a rental agreement for their Kingdom of Saudi Arabia branch with Hamoud Abdullah Al-hudaib Investment and Real Estate Development.

5.9.10 On 20 September 2018, NBB entered into a design and construction agreement for their new office in Kingdom of Saudi Arabia with Hashem Nabeel Ali Redha Company.

6. FINANCIAL INFORMATION IN RELATION TO NBB

6.1 Details of the last three financial years

	2018	2017	2016
Earnings (BHD millions)			
Net interest income	87.2	73.1	66.0
Other income	30.2	31.4	30.9
Gross income (Turnover)	117.4	104.5	96.9
Operating expenses	41.8	33.0	34.1
Profit for the year	70.0	61.0	58.2
Cash dividend (25%, 25 fils per share)	35.1	31.9	29.0
Stock dividend (10%, 10 fils per share)	14.0	12.8	11.6
Financial Positions (BHD millions)			
Total assets	3,195.5	3,101.5	2,977.1
Loans and advances	1,190.1	1,226.9	1,031.9
Investment securities	1,132.2	1,067.3	1,092.9
Earnings assets	3,020.7	2,939.7	2,823.0
Total deposits	2,675.9	2,617.1	2,526.4
Customers' deposits	2,190.6	2,165.2	2,088.4
Shareholders' equity	475.8	447.9	414.7
Ratios (%)			
Earnings			
Return on average equity	15.2	14.1	14.9
Return on average assets	2.2	2.0	2.0
Earnings per share (fils)	50	44	42
Cost-to-income ratio	35.6	31.6	35.2
Earnings per full-time employee (BHD 000's)	102.6	98.6	102.4
Capital			
Shareholders' equity as per cent of total assets	14.9	14.4	13.9
Total liabilities to shareholders' equity (times)	5.7	5.9	6.2
Capital adequacy	33.8	36.3	35.4

6.2 A statement of the assets and liabilities shown in the last published audited accounts

Please refer to Annexure 1 which includes the financial statements for NBB for the year ended 31 December 2018 and in particular the Statement of Financial Position.

6.3 Cash flow statement and any other primary statements provided in the last published audited accounts

Please refer to Annexure 1 which includes the financial statements for NBB for the year ended 31 December 2018 and in particular the Statement of Profit and Loss, Statement of Comprehensive Income, Statement of Changes in Equity, and Statements of Cash Flows.

6.4 Significant accounting policies

All the significant accounting policies as contained in the Annual Report for the financial year ended 31 December 2018 have been mentioned in Annexure 1 of this Offer Document, under the heading "Notes to the Financial Statements". There has been no change in accounting policies which have resulted in figures not being comparable to a material extent.

7. BAHRAIN'S BANKING SECTOR

7.1 Bahrain's financial sector is well-developed and diversified, consisting of a wide range of conventional and Islamic financial institutions and markets, including retail, wholesale banks and specialised banks.

7.2 Bahrain's banking system consists of both conventional and Islamic banks and is the largest component of the financial system. In 2018, the conventional segment includes 31 retail banks and 16 branches of foreign banks, 68 wholesale banks, and 7 representative offices of overseas banks.

7.3 The banking sector has played a pivotal role in the emergence of Bahrain as a leading financial centre in the region. It has continued to grow in 2018 with a total banking sector assets of c.USD 200 billion, more than five times annual Gross Domestic Product (GDP). Overall, the sector contributes c.20% of Bahrain's GDP, making it one of the key drivers of growth in the country.

8. CROSS SHAREHOLDINGS BY THE OFFEROR AND ITS DIRECTORS IN BISB

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 Organization (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 Abdul Rahim
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 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

8.1 No BISB Shares have been acquired by NBB in the last 12 months.

8.2 Some of the board members of NBB own shares in BISB as highlighted above and may be considered as ‘interested’ shareholders as defined by the CBB Law and the TMA.

8.3 No arrangement, agreement or understanding including any compensation agreement, exists in connection with the Offer between NBB and any person acting in concert with it and the directors of BISB or the BISB Shareholders.

9. NBB POST-ACQUISITION STRATEGY

9.1 BISB – commercial registration, legal status and trade name

9.1.1 Following the successful implementation of the offer and acquisition of shares, NBB expects that the transaction will result in asset, revenue, cost and other operational synergies that would provide all shareholders with enhanced returns in comparison to the standalone entities.

9.1.2 NBB intends to maintain BISB's commercial registration and vocation as an Islamic Retail Bank. BISB will continue to operate under its normal course of business and maintain its operations as a subsidiary of NBB. BISB will continue to be listed on the Bahrain Bourse subject to any compulsory acquisition and delisting regulations which may apply. BISB's business model will be widened with the aim of strengthening value-accretive and healthy business lines and sectors. Product offering will also be expanded to include products in line with evolving market demands. BISB's vision to be a leading Islamic bank will be further reinforced through the increased resources available with the new majority shareholder.

9.2 Strategic plans for the Offeree company

9.2.1 The Offeror supports BISB's vision to be a leading Islamic Bank; the increased resources available with the new shareholders aim to turn this vision into reality. The focus will be on developing and strengthening existing opportunities further. Subsequently, as retained earnings accumulate and a longer track record is established, BISB will aim to broaden the scope of its activities.

9.2.2 The Offeror does not intend to implement any material changes to the general business of BISB which will remain centred around Islamic banking. Accordingly, NBB aims to build on BISB's existing Islamic finance expertise by utilising the experience and knowhow that BISB's management brings.

9.3 Long term commercial justification for the proposed offer

9.3.1 Islamic banking in Bahrain grew remarkably over the last decade with Islamic banks steadily gaining market share over traditional banks. Bahrain is positioning itself as the Islamic banking capital of the Middle East, and will keep growing steadily in the coming years with the help of new regulations and 'fintech'.

9.3.2 In this context, Islamic Banking is a strategic priority for NBB and BISB has established a well-developed Islamic banking platform that has played a pivotal role in the development of the Islamic banking industry in Bahrain.

9.4 Impact on Offeree's employees

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 maximise 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.

10. SHARE OWNERSHIP IN NBB AND BISB

10.1 Currently, the following shareholders own 5% or more in NBB and BISB (controlled / related parties ownership have been consolidated in the table below) respectively:

Current and pre-offer ownership structure

National Bank of Bahrain B.S.C.	% owned in NBB	No of shares
Bahrain Mumtalakat Holding Co.	44.18%	681,895,086
Social Insurance Organization	10.88%	167,932,840
Other Public	44.94%	693,464,657
Total	100.00%	1,543,292,583

Bahrain Islamic Bank B.S.C.	% owned in BISB	No of shares
National Bank of Bahrain B.S.C.	29.06%	309,206,266
Social Insurance Organization	29.06%	309,209,172
Islamic Development Bank	14.41%	153,282,138
General Council of Kuwait Awqaf	7.18%	76,366,321
Other Public	20.29%	215,994,690
Total	100.00%	1,064,058,587

10. SHARE OWNERSHIP IN NBB AND BISB (continued)

10.2 The following table indicates the dealings in NBB's shareholding during the period of 19 May 2019 to 17 November 2019 prior to the Offer Period:

Date	Price per share (BHD)	Sum of Volume	Sum of Value (BHD)	Sum of Number of Transactions
23 May 2019	0.635	48,000	30,480.000	3
26 May 2019	0.635	20,000	12,700.000	1
27 May 2019	0.635	800	508.000	1
29 May 2019	0.635	1,170	742.950	1
30 May 2019	0.640	4,104	2,626.560	1
10 June 2019	0.640	10,000	6,400.000	1
13 June 2019	0.640	20,000	12,800.000	1
13 June 2019	0.645	5,428	3,501.060	2
17 June 2019	0.643	6,265	4,028.395	1
18 June 2019	0.647	6,894	4,460.418	1
18 June 2019	0.650	725	471.250	1
20 June 2019	0.647	150,000	97,050.000	1
25 June 2019	0.651	4,140	2,695.140	1
26 June 2019	0.653	71,861	46,925.233	3
26 June 2019	0.655	2,998	1,963.690	1
27 June 2019	0.660	20,000	13,200.000	1
01 July 2019	0.665	12,100	8,046.500	1
01 July 2019	0.666	8,000	5,328.000	1
01 July 2019	0.670	373	249.910	1
02 July 2019	0.670	20,000	13,400.000	1
03 July 2019	0.670	20,000	13,400.000	1
04 July 2019	0.660	1,577	1,040.820	1
04 July 2019	0.670	47,800	32,026.000	2
07 July 2019	0.660	100	66.000	1
07 July 2019	0.665	77	51.205	1
07 July 2019	0.670	10,000	6,700.000	1
09 July 2019	0.690	33,609	23,190.210	1
11 July 2019	0.690	7,000	4,830.000	2
14 July 2019	0.685	20,931	14,337.735	3
14 July 2019	0.690	10,000	6,900.000	2
15 July 2019	0.685	35,500	24,317.500	2
17 July 2019	0.695	25,000	17,375.000	1
17 July 2019	0.700	35,300	24,710.000	6
18 July 2019	0.700	4,000	2,800.000	1
21 July 2019	0.692	2,100	1,453.200	1
22 July 2019	0.700	32,540	22,778.000	3
23 July 2019	0.700	82,378	57,664.600	4
24 July 2019	0.700	45,628	31,939.600	2
25 July 2019	0.700	29,156	20,409.200	2
25 July 2019	0.702	285,208	200,216.016	2
25 July 2019	0.703	2,000	1,406.000	1
28 July 2019	0.702	5,000	3,510.000	1
28 July 2019	0.703	14,729	10,354.487	2
28 July 2019	0.704	700	492.800	1
29 July 2019	0.700	15,000	10,500.000	1
29 July 2019	0.703	6,000	4,218.000	1
30 July 2019	0.703	42,725	30,035.675	1
31 July 2019	0.700	5,000	3,500.000	3
31 July 2019	0.704	51,283	36,103.232	1
04 August 2019	0.705	41,861	29,512.005	3
04 August 2019	0.706	10	7.060	1
05 August 2019	0.706	42,725	30,163.850	1
06 August 2019	0.707	2,120	1,498.840	1
07 August 2019	0.705	4,100	2,890.500	1
08 August 2019	0.705	34,655	24,431.775	3
15 August 2019	0.700	10,000	7,000.000	1
20 August 2019	0.700	14,320	10,024.000	2
21 August 2019	0.699	30,000	20,970.000	2
28 August 2019	0.695	40,000	27,800.000	2

10. SHARE OWNERSHIP IN NBB AND BISB (continued)

Date	Price per share (BHD)	Sum of Volume	Sum of Value (BHD)	Sum of Number of Transactions
29 August 2019	0.693	5,580	3,866.940	1
02 September 2019	0.694	9,550	6,627.700	2
02 September 2019	0.695	7,650	5,316.750	2
03 September 2019	0.700	9,850	6,895.000	1
04 September 2019	0.699	2,500	1,747.500	1
05 September 2019	0.700	100,000	70,000.000	2
05 September 2019	0.702	7,200	5,054.400	1
08 September 2019	0.702	7,276	5,107.752	1
11 September 2019	0.700	3,937	2,755.900	2
12 September 2019	0.700	15,000	10,500.000	1
15 September 2019	0.690	400,000	276,000.000	2
15 September 2019	0.691	56,525	39,058.775	2
16 September 2019	0.697	5,000	3,485.000	1
18 September 2019	0.695	55,000	38,225.000	2
18 September 2019	0.697	4,582	3,193.654	1
19 September 2019	0.696	62,800	43,708.800	2
22 September 2019	0.695	9,758	6,781.810	1
23 September 2019	0.695	10,000	6,950.000	1
23 September 2019	0.697	78,631	54,805.807	3
24 September 2019	0.695	25,783	17,919.185	1
24 September 2019	0.697	59,000	41,123.000	3
25 September 2019	0.695	205,586	142,882.270	4
26 September 2019	0.700	5,677	3,973.900	1
26 September 2019	0.705	10,000	7,050.000	1
29 September 2019	0.700	94,406	66,084.200	2
29 September 2019	0.705	20	14.100	1
30 September 2019	0.704	28,582	20,121.728	1
02 October 2019	0.704	5,602	3,943.808	3
06 October 2019	0.704	25,000	17,600.000	2
07 October 2019	0.703	21,500	15,114.500	2
08 October 2019	0.702	1,442	1,012.284	1
09 October 2019	0.704	9,000	6,336.000	2
10 October 2019	0.703	15,212	10,694.036	1
10 October 2019	0.704	35,000	24,640.000	2
13 October 2019	0.703	3,453	2,427.459	1
14 October 2019	0.700	59,000	41,300.000	4
14 October 2019	0.703	9,000	6,327.000	1
15 October 2019	0.700	15,000	10,500.000	2
17 October 2019	0.700	15,000	10,500.000	1
20 October 2019	0.700	58,165	40,715.500	4
21 October 2019	0.701	14,130	9,905.130	1
22 October 2019	0.700	33,000	23,100.000	4
23 October 2019	0.702	6,000	4,212.000	1
23 October 2019	0.703	15,000	10,545.000	2
23 October 2019	0.704	20,001	14,080.704	2
24 October 2019	0.703	20,998	14,761.594	1
27 October 2019	0.703	15,000	10,545.000	2
28 October 2019	0.700	85,000	59,500.000	5
28 October 2019	0.701	15,000	10,515.000	1
30 October 2019	0.700	35,000	24,500.000	1
31 October 2019	0.705	3,920	2,763.600	2
03 November 2019	0.708	6,286	4,450.488	2
04 November 2019	0.704	5,000	3,520.000	1
04 November 2019	0.708	115,000	81,420.000	1
05 November 2019	0.708	5,000	3,540.000	1
07 November 2019	0.706	2,000	1,412.000	2
07 November 2019	0.708	6,520	4,616.160	1
11 November 2019	0.708	15,000	10,620.000	1
12 November 2019	0.709	20,000	14,180.000	1
13 November 2019	0.709	2,120	1,503.080	1
14 November 2019	0.708	16,000	11,328.000	2
Grand Total		3,511,232	2,429,577.930	197

11. THE OFFEROR'S CONFIRMATORY STATEMENTS

11.1 The Offeror confirms that:

11.1.1 settlement of the Offer consideration to which all of the Offeree's shareholders are entitled under this Offer will be implemented in full in accordance with the terms of this Offer;

11.1.2 no arrangements involving rights over shares, nor any indemnity agreements, nor any agreements or understandings, both formal or informal, relating to the shares pertaining to this Offer (that may be an inducement to deal or refrain from dealing) exist between the Offeror or any person acting in concert with the Offeror and any other party;

11.1.3 none of the BISB Shares being acquired pursuant to the Offer will be transferred to any other persons;

11.1.4 it has not entered nor made any agreements, arrangements or understandings, nor has it undertaken any compensation agreements, both directly or through any person acting in concert with the Offeror, in connection with the Offer with the directors or shareholders of the Offeree;

11.1.5 should the Offeror achieve 95% or more ownership in the Offeree as a result of this Offer, the Offeror has to compulsorily and therefore will offer to acquire the remaining voting rights within 3 months from the date of acquisition of 95% or more, subject to regulatory approval. Further, the Offeror intends to avail of any rights of compulsory acquisition which may become available to it, and where it does so, it will comply with the TMA in relation to compulsory delisting;

11.1.6 some of the Offeror's directors can be considered "interested" shareholders as defined by the TMA; and

11.1.7 no material changes in the financial or trading position or outlook of NBB has occurred following the last published audited accounts excerpts of which are included in this Offer Document.

12. MARKET PRICE AND HISTORICAL STOCK TRADING SUMMARY

12.1 Trading price of the Offeree

12.1.1 The market price of BISB Shares on certain key dates is given below:

On 17 November 2019, the Last Practicable Date	BISB Shares closing price on 17 November 2019 was BHD 0.120 per share
On 21 July 2019, the last business day prior to the date of the initial announcement	BISB Shares closing price on 21 July 2019 was BHD 0.120 per share
On 31 October 2019, the last Business Day prior to the date of the announcement of the Firm Intention	BISB Shares closing price on 31 October 2019 was BHD 0.122 per share

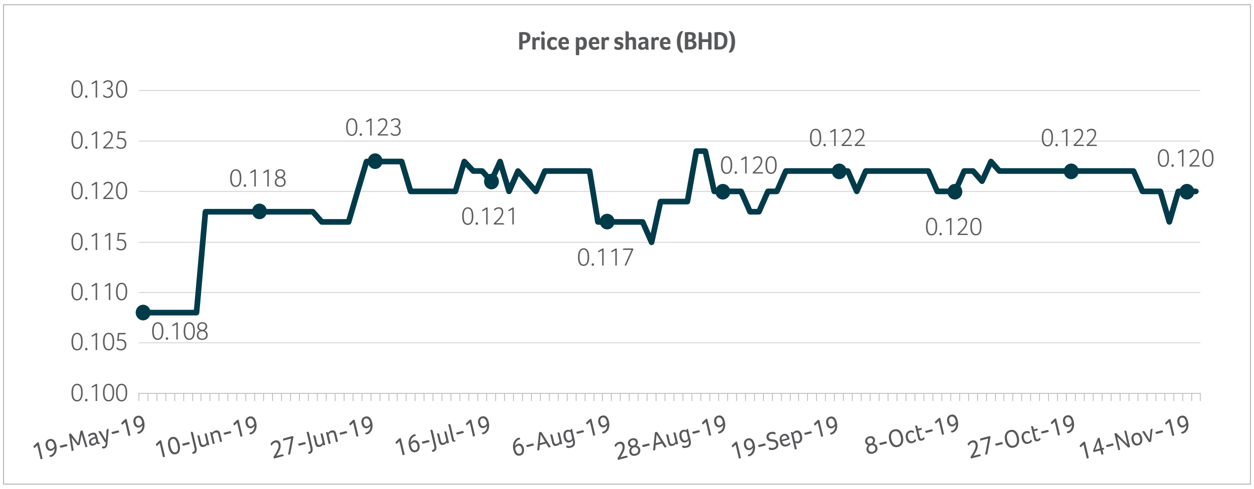
12.1.2 Over the six months prior to and including the Last Practicable Date, the total number of shares traded in BISB stood at 5,907,297 shares in 130 transactions and with an average price of BHD 0.120 per share with a total value traded of BHD 711,177,204. The lowest closing price of BHD 0.108 per share was from 19 May 2019 to 27 May 2019 and the highest closing price of BHD 0.124 per share was from 25 August 2019 to 26 August 2019.

12.1.3 The following table details the closing price for the BISB Shares at the end of each of the calendar months during the period commencing six months prior to the commencement of the Offer Period and ending on the latest practicable date prior to the posting of the Offer Document:

	Closing price per share (BHD)
May 2019	0.118
June 2019	0.123
July 2019	0.122
August 2019	0.120
September 2019	0.122
October 2019	0.122

12.1.4 The volume weighted average price per BISB Share in the six month period prior to and including the Last Practicable Date was BHD 0.120.

12.1.5 Market price movement for BISB Shares for the period from 19 May 2019 to 17 November 2019 at the BHB is given in the chart below:



12. MARKET PRICE AND HISTORICAL STOCK TRADING SUMMARY (continued)

12.1 Trading price of the Offeree (continued)

12.1.6 The value of the Cash Offer alternative within the Offer, at BHD 0.117 per BISB Share:

(a) falls below the market price per BISB Share on the Last Practicable Date by BHD 0.003 per BISB Share;

(b) falls below the volume weighted average price per BISB Share in the six month period prior to and including the Last Practicable Date by BHD 0.003 per BISB Share; and

(c) exceeds the market price per BISB Share six months prior to the Last Practicable Date, i.e. 19 May 2019, by BHD 0.009 per BISB Share.

12.1.7 The implied value of the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BISB Shareholder, at the Share Exchange Ratio of 0.167 New NBB Shares per BISB Share:

(a) falls below the market price per BISB Share on the Last Practicable Date by BHD 0.002 per BISB Share (on the basis of the market price per share in NBB on the Last Practicable Date of BHD 0.708);

(b) falls below the volume weighted average price per BISB Share in the six month period prior to and including the Last Practicable Date by BHD 0.005 per BISB Share (on the basis of the volume weighted average price per share in NBB in the six month period prior to and including the Last Practicable Date of BHD 0.692); and

(c) exceeds the market price per BISB Share six months prior to the Last Practicable Date, i.e. 19 May 2019, by BHD 0.010 per BISB Share (on the basis of the market price per share in NBB on the Last Practicable Date of BHD 0.708).

12.2 Trading price of the Offeror

12.2.1 The market price of the shares of NBB on certain key dates is given below:

On 17 November 2019, the Last Practicable Date	NBB Shares closing price on 17 November 2019 was BHD 0.708 per share
On 21 July 2019, the last business day prior to the date of the initial announcement	NBB Shares closing price on 21 July 2019 was BHD 0.700 per share
On 31 October 2019, the last Business Day prior to the date of the announcement of the Firm Intention	NBB Shares closing price on 31 October 2019 was BHD 0.705 per share

12.2.2 Over the six months prior to and including the Last Practicable Date, the total number of shares traded in NBB stood at 3,511,232 shares in 197 transactions and with an average price of BHD 0.692 per share with a total value traded of BHD 2,429,577.930. The lowest closing price of BHD 0.625 per share was from 19 May 2019 to 22 May 2019. The highest closing price of BHD 0.709 was from 12 November 2019 to 13 November 2019.

12. MARKET PRICE AND HISTORICAL STOCK TRADING SUMMARY (continued)

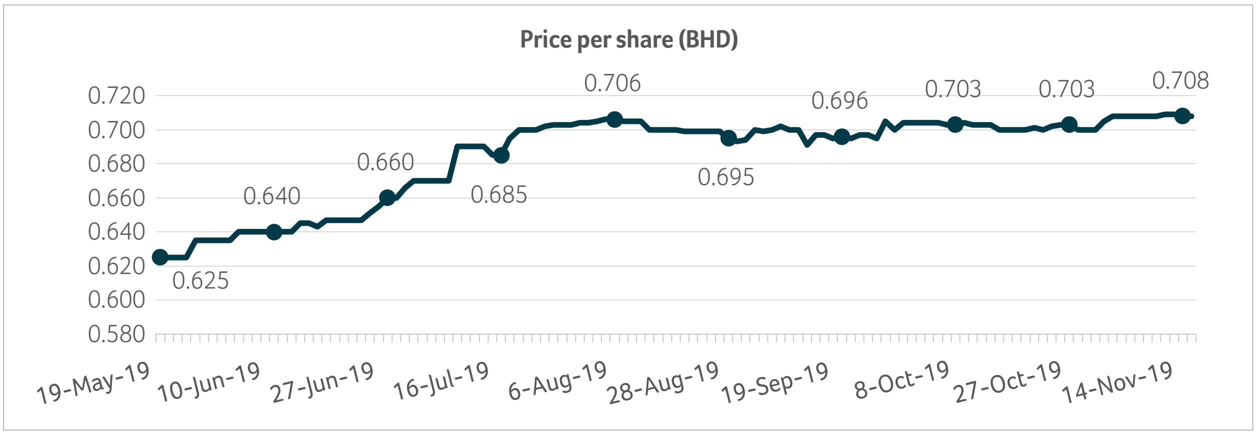
12.2 Trading price of the Offeror (continued)

12.2.3 The following table details the closing price for the NBB Shares at the end of each of the calendar months during the period commencing six months prior to the commencement of the Offer Period and ending on the latest practicable date prior to the posting of the Offer Document:

	Closing price per share (BHD)
May 2019	0.640
June 2019	0.660
July 2019	0.704
August 2019	0.693
September 2019	0.704
October 2019	0.705

12.2.4 The volume weighted average price per share of NBB in the six month period prior to and including the Last Practicable Date was BHD 0.692.

12.2.5 Market price movement for NBB Shares for the period from 19 May 2019 to 17 November 2019 at the BHB is given in the chart below:



13. EFFECT OF THE OFFER

13.1 Legal consequences of the Offer

13.1.1 The Offer, if completed, will result in NBB becoming the legal owner of BISB Shares validly tendered under the Offer together with all rights and interests associated with such ownership.

13.1.2 Shareholders in BISB surrendering their shares to NBB in return for availing of the Cash Offer or Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BISB Shareholder made by NBB shall lose their rights associated with their ownership of such BISB Shares, including but not limited to, rights concerning share ranking, voting, dividend and liquidation.

13.1.3 Shareholders in BISB choosing not to surrender their shares to NBB in return for availing of the Cash Offer or Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BISB Shareholder made by NBB shall continue to retain their rights associated with their ownership of such BISB Shares, including but not limited to, rights concerning share ranking, voting, dividend and liquidation.

13.2 No special benefits to executive managers and directors

13.2.1 No payments of any kind will be made by NBB to the executive managers, the directors or the employees of BISB in connection with the Offer, except as ordinary settlement pursuant to the Offer for any BISB Shares held by such persons.

13.2.2 NBB's executive managers, directors and employees will not receive any payments of any kind from BISB or any other third party in connection with the Offer, except as ordinary settlement pursuant to the Offer for any BISB Shares held by such persons.

13.3 The effect of the Offer on the directors of the Offeror

The Offer will not have any material effect on the current directors of NBB, and no change is envisaged to the current structure of the Board of Directors of NBB pursuant to this Offer.

13.4 Financial consequences of the Offer

13.4.1 NBB already owns 29.06% of the issued share capital of BISB as of the date of this Offer Document. The remaining shares to be acquired are therefore valued at BHD 88.3 million using the price of BHD 0.117 per BISB Share which compares with NBB's market capitalization of BHD 1,092.7 million as at the Last Practicable Date. In this context, full acceptance of the Offer is not expected by the Offeror to have a material adverse effect upon the Offeror's assets, liabilities, profits or business.

13.4.2 The Offeror will continue to benefit from a sound financial position with pro-forma regulatory capital ratios above the requirements as per the CBB's Capital Adequacy Rules. The financial effect of full acceptances of the Offer upon NBB's regulatory capital ratios will vary with the proportion of BISB Shareholders selecting the Cash Offer or the Share Exchange Offer alternative. On the basis of the published accounts as at 30th June 2019, Pro forma NBB's CET1 ratio, Tier 1 ratio and capital adequacy ratio will remain in all cases above 20%, complying with the minimum capital requirements of 9.0%, 10.5% and 12.5% respectively required by the CBB.

14. RISK FACTORS

BISB Shareholders should carefully consider the risks set forth below as each of the risks highlighted could adversely affect the market price of both NBB's shares and the BISB Shares. NBB has described only those risks relating to its operations that it considers material. There may be additional risks that NBB currently considers not to be material or of which it is not currently aware, and any of those risks could also adversely affect the market price of the BISB Shares and NBB's shares.

In common with other players in the banking sector, NBB faces a range of risks in its business and operations as follows:

14.1 Credit risk

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

14.1.2 NBB acknowledges that credit risk is an inherent and substantial cost that needs to be set against income. Credit risk is just one aspect for any economic capital system and must be seen in conjunction with capital requirements and returns. NBB evaluates risk in terms of the impact on income and asset values, and the evaluation reflects the bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients.

14.1.3 NBB monitors and manages concentration risk by setting limits on exposures to countries, sectors and counterparty groups. Clear criteria are used in setting such limits so as to limit the impact of any adverse developments on NBB's income generation and capital strength. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action.

14.2 Liquidity risk

14.2.1 Liquidity risk is the potential inability of NBB to meet its financial obligations on account of a maturity mismatch between assets and liabilities. The bank's ability to actively manage liquidity risk and ensure that funds are available at all times to meet its requirements will be key to its liquidity risk management.

14.2.2 NBB's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions in order to limit potential losses and damage to NBB's reputation.

14.2.3 The asset/liability management policies of NBB define the proportion of liquid assets to total assets with the aim of minimizing liquidity risk. NBB aims to maintain adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations.

14.2.4 NBB's ability to maintain a stable liquidity profile will hinge on retaining and growing its customer deposit base while maintaining a balanced mix of demand and time deposits. Any instability to the deposit base may disrupt this balance and expose the bank to volatile short-term borrowings as a source of funding.

14. RISK FACTORS (continued)

14.3 Market risk

14.3.1 NBB is exposed to market risk and potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the bank. The bank's trading activities are governed by policies that are clearly documented, by adherence to comprehensive limit structures and by regular reviews. NBB uses the standardised method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk.

14.3.2 NBB's exposure to interest rate risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities.

14.4 Operational risk

14.4.1 NBB is exposed to operational risk and the inability to achieve its strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events. Operational risk arises from day-to-day operations or external events and is relevant to every aspect of the bank's activities.

14.4.2 NBB has implemented an operational risk management framework in order to manage and control operational risks in a cost-effective manner within targeted levels consistent with the bank's objectives. The framework will however depend on NBB's ability to identify, assess, monitor and control operational risks in an effective manner.

14.5 Capital management

14.5.1 NBB will have to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the bank's business activities and to maintain a well-capitalized status under regulatory requirements.

14.6 Information security risk

14.6.1 Information security risk Information security risk is the risk associated with the operation and use of information systems that support the mission and business functions of the bank. It is defined as a function of the likelihood of a given threat-source's exercising (accidentally triggering or intentionally exploiting) a particular potential vulnerability, and the resulting impact of that adverse event on the organisation.

14.6.2 The bank is implementing an Information Security Management System ('ISMS') Framework of policies and procedures, based on the ISO/IEC 27000:2018 family of standards that includes all legal, physical and technical controls involved in the organisation's information risk management processes. It is a systematic approach to managing sensitive company information so that it remains secure, by including people, processes and technology.

14. RISK FACTORS (continued)

14.7 Reputation and fiduciary risk

14.7.1 Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion that would impact the ability to establish new relationships or services or to continue servicing existing relationships.

14.7.2 Management of reputation risk is an inherent feature of the bank's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators, general public and fiduciary/non-fiduciary clients.

14.8 Regulatory compliance and financial crime risks

14.8.1 Promotion of a healthy compliance culture lies at the heart of NBB's strategy. The bank has accordingly been focused on developing a sound framework which oversees adherence to the codes, rules, regulations and standards of the Kingdom of Bahrain, as well as other countries where it has operations.

14.8.2 The compliance department's key responsibilities include managing financial crime compliance. To this effect, a risk based approach has been implemented to address Know Your Client ('KYC') requirements, sanctions monitoring, and anti-money laundering and counter terrorism financing measures.

14.9 Share Exchange Offer alternative is not Shari'a compliant

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 at the option and discretion of the BISB Shareholders are not a Shari'a compliant investment. As such, for those BISB Shareholders who wish to accept the Offer and for whom this is a consideration, the Cash Offer alternative may be considered.

15. OFFER FINANCE

15.1 Offer finance sources

15.1.1 The cash consideration payable by NBB for acceptances of the Cash Offer will be financed through internal accruals.

15.1.2 The shares to be issued by NBB for acceptances of the Share Exchange Offer provided as an alternative to the Cash Offer at the option and discretion of each BISB Shareholder will be financed through an issue of up to 145,000,000 New NBB Shares to be approved by an EGM scheduled for 24 November 2019.

15.2 Confirmation of the Financial Advisor

The Financial Advisor confirms that it has taken all reasonable steps to convince itself that sufficient resources are available to the Offeror to satisfy the full implementation and acceptance of the offer.

16. ADDITIONAL INFORMATION

16.1 Arrangements

16.1.1 No arrangements have been made involving rights over shares, indemnity arrangements or any other agreement or understanding relating to relevant securities which may be an inducement to deal or refrain from dealing between NBB or any person acting in concert with NBB.

16.1.2 No arrangement, agreement or understanding, including any compensation agreement, exists in connection with the Offer between NBB and any person acting in concert with it and the directors of BISB or the BISB Shareholders.

16.2 Shareholding and dealings in Offeree company

NBB has not purchased or sold BISB Shares during the 12-month period prior to the date of this Offer document and holds 309,206,266 BISB Shares representing 29.06% of the issued share capital of BISB as of the date of this Offer Document. Some of the directors of NBB hold BISB Shares as highlighted in section 8 of this Offer Document as of the date of this Offer Document.

16.3 Material litigation

At the date of this Offer Document, there is no material litigation to which NBB is a party or to the best of the knowledge of NBB, to which NBB may become a party.

16.4 Material liability

There are no material loans, mortgages, charges or guarantees other than those entered into in the normal course of business or other contingent liabilities of NBB at the date of this Offer Document. Please refer to section 6 for further information regarding the financial position of NBB.

16.5 Documents on display

During the Offer Period, the following documents (or copies thereof) may be inspected at the head office of NBB in Manama, Kingdom of Bahrain:

16.5.1 the Memorandum and Articles of Association of NBB;

16.5.2 financial statements of NBB for the years ended 31 December 2017 and 31 December 2018;

16.5.3 notice of Firm Intention from NBB to BISB dated 3 November 2019;

16.5.4 written confirmation from the Financial Advisor addressed to the CBB dated 1 November 2019 confirming that they have taken all reasonable steps to convince themselves that sufficient resources are available to implement the Offer; and

16.5.5 written consents of the Financial Advisor, the Legal Advisors and the Issue Execution Advisor, Receiving Agent, and Allotment Agent.

16.6 Conflicts of interest

Some of the board members of NBB own shares in BISB as highlighted in section 8 and may be considered as interested shareholders as defined by the CBB Law and the TMA. Additionally, some of the board members and shareholders of NBB may have investments in related entities, suppliers and contractors transacting with the Offeror and/or the Offeree on an arm's length basis.

17. KEY PARTIES

The Offeror	National Bank of Bahrain B.S.C. P.O. Box 106 Manama, Kingdom of Bahrain Tel: (973) 1722 8800 Web: www.nbbonline.com Email: IR@nbbonline.com
Financial Advisor to the Offeror	Lazard Frères SAS 121, Boulevard Haussmann Paris Cedex 08 Paris 75382 Tel: (33) 1 44 13 01 11 Fax: (33) 1 4413 03 78
Auditor to the Offeror	KPMG Fakhro Audit 12th Floor, Fakhro Tower P.O. Box 710, Manama, Kingdom of Bahrain Tel: (973) 17 224 807 Fax: (973) 17 227 443
Issue Execution Advisor, Receiving Agent, and Allotment Agent	SICO B.S.C.(c) 1st Floor, BMB Centre, Diplomatic Area, P.O. Box 1331, Manama Kingdom of Bahrain Tel: (973) 17 515000 Fax: (973) 17 514000

17. KEY PARTIES (continued)

Legal Consultants	Towers & Hamlins 7th Floor, West Tower P.O. Box 3012, Manama Kingdom of Bahrain Tel: (973) 17 515600 Fax: (973) 17 131003 Hassan Radhi & Associates ERA Business Centre Diplomatic Area, 18th and 19th Floor P.O. Box 5366 Kingdom of Bahrain Tel: (973) 17 535252 Fax: (973) 17 533358
Offeror Registrar	Karvy Fintech (Bahrain) W.L.L. Zamil Towers, Office No.74, 7th Floor, P.O. Box 514, Manama, Kingdom of Bahrain Tel: (973) 17 215080
Central Securities Depository and Issue Registrar	Bahrain Clear B.S.C.(c) 4th Floor, Harbour Gate, Bahrain Financial Harbour, Manama, Kingdom of Bahrain Tel: (973) 17 108781

SCHEDULE 1

Privacy notice

1 **What is the purpose of this document?**

The Receiving Agent is committed to protecting the privacy and security of your personal information.

This privacy notice describes how we collect and use personal information about you during and after the completion of your acceptance of the Offer and the transfer of shares under the terms of the Acceptance and Transfer Form, in accordance with Law No. 30 of 2018 regarding the Personal Data Protection Law (PDPL).

The Receiving Agent is a "data manager". This means that we are responsible for deciding how we hold and use personal information about you. We are required under the PDPL to notify you of the information contained in this privacy notice.

This notice applies to BISB Shareholders in respect of the Offer and those who have taken up the Offer. This notice does not form part of any contract with you and we may update this notice at any time but if we do so, we will provide you with an updated copy of this notice as soon as reasonably practical.

It is important that you read and retain this notice, together with any other privacy notice we may provide on specific occasions when we are collecting or processing personal information about you, so that you are aware of how and why we are using such information and what your rights are under the PDPL.

2 **Data protection principles**

We will comply with data protection law. This says that the personal information we hold about you must be:

- used lawfully and fairly;
- collected only for a lawful purpose that we have explicitly specified to you and not used in any way that is not compatible with the purpose for which it was collected;
- adequate, relevant and not excessive for the purposes for which it was collected;
- correct, accurate and kept up to date;
- kept only as long as necessary for the purposes identified; and
- kept securely.

3 **The kind of information we hold about you**

Personal data, or personal information, means any information about an individual from which that person can be identified. It does not include data where the identity has been removed (anonymous data).

There are certain types of more sensitive personal data which require a higher level of protection, such as information about a person's health or about criminal convictions.

We will collect, store, and use the following categories of personal information about you:

- personal contact details such as name, title, addresses, telephone numbers, and personal email addresses;
- date of birth;
- gender;
- bank account details and tax status information;
- start date and completion date of your acceptance of the Offer and the transfer of shares;
- copy of any identification documents;
- application information; and
- information about your use of our information and communications systems.

SCHEDULE 1 (continued)

We may also collect, store and use the following more sensitive types of personal information:

- information about your race or ethnicity, religious beliefs and political opinions;
- biometric data; and
- information about criminal convictions and offences.

4 **How is your personal information collected?**

We collect personal information about BISB Shareholders through the application process directly from the BISB Shareholders. We may sometimes collect additional information from third parties including credit reference agencies or other background check agencies.

We may collect additional personal information through the transfer of shares by you.

5 **How we will use information about you**

We will only use your personal information when the law allows us to. Most commonly, we will use your personal information in the following circumstances:

- where we need to perform the contract we have entered into with you;
- where we need to comply with a legal obligation; and
- where it is necessary for legitimate interests pursued by us or a third party and your interests and fundamental rights and freedoms do not override those interests.

We may also use your personal information in the following situations, which are likely to be rare:

- where we need to protect your interests (or someone else's interests); and
- where it is needed in the public interest or for official purposes.

6 **Situations in which we will use your personal information**

We need all the categories of information in the list above primarily to allow us to perform our contract with you and to enable us to comply with legal obligations. In some cases we may use your personal information to pursue legitimate interests, provided your interests and fundamental rights and freedoms do not override those interests. The situations in which we will process your personal information are listed below:

- making a decision about your application and determining the terms on which you accept the offer;
- checking you are eligible to accept the Offer;
- making arrangements for the acceptance by you of the Offer;
- processing your application in respect of the Offer;
- sharing your information as reasonably necessary and / or desirable in connection with the Offer; and
- dealing with legal disputes involving you, or other applicants.

Some of the above grounds for processing will overlap and there may be several grounds which justify our use of your personal information.

6.1 If you fail to provide personal information

If you fail to provide certain information when requested, we may not be able to perform the contract we have entered into with you, or we may be prevented from complying with our legal obligations (such as to ensure the eligibility of those accepting the Offer).

SCHEDULE 1 (continued)

6.2 Change of purpose

We will only use your personal information for the purposes for which we collected it, unless we reasonably consider that we need to use it for another reason and that reason is compatible with the original purpose. If we need to use your personal information for an unrelated purpose, we will notify you and we will explain the legal basis which allows us to do so.

Please note that we may process your personal information without your knowledge or consent, in compliance with the above rules, where this is required or permitted by law.

7 How we use sensitive personal information

Sensitive personal information require higher levels of protection. We have in place an appropriate policy document and safeguards which we are required by law to maintain when processing such data. We may process sensitive personal information in the following circumstances:

- with your explicit written consent;
- where we need to carry out our legal obligations or exercise rights in connection with employment;
- where it is needed to conduct or defend any proceedings; and
- where it is needed in the public interest, such as for equal opportunities monitoring.

Less commonly, we may process this type of information where it is needed in relation to legal claims or where it is needed to protect your interests (or someone else's interests) and you are not capable of giving your consent, or where you have already made the information public.

7.1 Situations in which we will use your sensitive personal information

In general, we will not process particularly sensitive personal information about you unless it is necessary for performing or exercising obligations.

We do not envisage that we will hold sensitive personal information.

Do we need your consent?

We do not need your consent if we use certain categories of your personal information in accordance with our written policy to carry out our legal obligations. In limited circumstances, we may approach you for your written consent to allow us to process certain data. If we do so, we will provide you with full details of the information that we would like and the reason we need it, so that you can carefully consider whether you wish to consent. You should be aware that it is not a condition of your contract with us that you agree to any request for consent from us.

8 Information about criminal convictions

We may only use information relating to criminal convictions where the law allows us to do so. This will usually be where such processing is necessary to carry out our obligations and provided we do so in line with our data retention policy.

We do not envisage that we will hold information about criminal convictions.

We will only collect information about criminal convictions if it is appropriate and where we are legally able to do so. Where appropriate, we will collect information about criminal convictions as part of the application process or we may be notified of such information directly by you in the course of you working for us.

We are allowed to use your personal information in this way to carry out our obligations. We have in place an appropriate policy and safeguards which we are required by law to maintain when processing such data.

SCHEDULE 1 (continued)

9 Automated decision-making

Automated decision-making takes place when an electronic system uses personal information to make a decision without human intervention. We are allowed to use automated decision-making in the following circumstances without receiving your express written consent:

- where it is necessary to process your application in respect of the Offer;
- proceeding with our legitimate interests unless such is contrary to your fundamental interests;
- take action at your request with a view to concluding a contract; and
- to protect your vital interests.

You will not be subject to decisions that will have a significant impact on you based solely on automated decision-making, unless we have a lawful basis for doing so and we have notified you.

We do not envisage that any decisions will be taken about you using automated means, however we will notify you in writing if this position changes.

10 Data sharing

We may have to share your data with third parties, including third-party service providers and other entities in the group.

We require third parties to respect the security of your data and to treat it in accordance with the law.

We may transfer your personal information outside the Kingdom of Bahrain.

If we do, you can expect a similar degree of protection in respect of your personal information.

10.1 Why might you share my personal information with third parties?

We will share your personal information with third parties where required by law, where it is necessary to administer the relationship with you or where we have another legitimate interest in doing so.

10.2 Which third-party service providers process my personal information?

"Third parties" includes third-party service providers (including contractors and designated agents) and other entities within our group. The following activities may be carried out by third-party service providers: registry, custody, administration, advisory, compliance and IT services.

10.3 How secure is my information with third-party service providers?

All our third-party service providers are required to take appropriate security measures to protect your personal information in line with our policies. We do not allow our third-party service providers to use your personal data for their own purposes. We only permit them to process your personal data for specified purposes and in accordance with our instructions.

10.4 What about other third parties?

We may share your personal information with other third parties. In this situation we will, so far as possible, share anonymised data with the other parties. We may also need to share your personal information with a regulator the Offeror, the Offeree and the other parties outlined in the Offer Document to effect the Offer and process your application or to otherwise comply with the law.

SCHEDULE 1 (continued)

10.5 Transferring information outside the Kingdom of Bahrain

We may transfer the personal information we collect about you outside of the Kingdom of Bahrain in order to perform our contract with you. We anticipate the Data Protection Authority will issue a list of countries in which personal information may be transferred with an adequate level of protection.

If your personal information is to be transferred to countries not on the list, we will put in place appropriate measures to ensure that your personal information is treated by those third parties in a way that is consistent with and which respects the PDPL.

11 Data security

We have put in place measures to protect the security of your information. Details of these measures are available upon request.

Third parties will only process your personal information on our instructions and where they have agreed to treat the information confidentially and to keep it secure.

We have put in place appropriate security measures to prevent your personal information from being accidentally lost, used or accessed in an unauthorised way, altered or disclosed. In addition, we limit access to your personal information to those employees, agents, contractors and other third parties who have a business need to know. They will only process your personal information on our instructions and they are subject to a duty of confidentiality.

We have put in place procedures to deal with any suspected data security breach and will notify you and any applicable regulator of a suspected breach where we are legally required to do so.

12 Data retention

We will only retain your personal information for as long as necessary to fulfil the purposes we collected it for, including for the purposes of satisfying any legal, accounting, or reporting requirements. Details of retention periods for different aspects of your personal information are available in our retention policy which is available upon request. To determine the appropriate retention period for personal data, we consider the amount, nature, and sensitivity of the personal data, the potential risk of harm from unauthorised use or disclosure of your personal data, the purposes for which we process your personal data and whether we can achieve those purposes through other means, and the applicable legal requirements.

In some circumstances we may anonymise your personal information so that it can no longer be associated with you, in which case we may use such information without further notice to you. Once the conditions precedent of the Offer have been satisfied and your shares have been transferred, or in the event that such conditions precedent are not met, we will retain and securely destroy your personal information in accordance with our data retention policy.

13 Rights of access, correction, erasure, and restriction

13.1 Your duty to inform us of changes

It is important that the personal information we hold about you is accurate and current. Please keep us informed if your personal information changes during following the signature of the offer and acceptance form but prior to the transfer of the shares.

SCHEDULE 1 (continued)

13.2 Your rights in connection with personal information

Under certain circumstances, by law you have the right to:

- request access to your personal information (commonly known as a "data subject request"). This enables you to receive a copy of the personal information we hold about you and to check that we are lawfully processing it;
- request correction of the personal information that we hold about you. This enables you to have any incomplete or inaccurate information we hold about you corrected;
- request erasure of your personal information. This enables you to ask us to delete or remove personal information where there is no good reason for us continuing to process it. You also have the right to ask us to delete or remove your personal information where you have exercised your right to object to processing (see below);
- object to processing of your personal information where we are relying on a legitimate interest (or those of a third party) and there is something about your particular situation which makes you want to object to processing on this ground. You also have the right to object where we are processing your personal information for direct marketing purposes;
- request the restriction of processing of your personal information. This enables you to ask us to suspend the processing of personal information about you, for example if you want us to establish its accuracy or the reason for processing it; and
- object to processing of your personal information where such processing results in damage, whether material, moral and unjustified, to you or to others or where there are reasonable grounds to believe that such damage could result from such processing.

If you want to review, verify, correct or request erasure of your personal information, object to the processing of your personal data, or request that we transfer a copy of your personal information to another party, please contact the Head of Client Relations at SICO B.S.C.(c) in writing at clients@sicobank.com.

13.3 No fee required

You will not have to pay a fee to access your personal information (or to exercise any of the other rights).

13.4 What we may need from you

We may need to request specific information from you to help us confirm your identity and ensure your right to access the information (or to exercise any of your other rights). This is another appropriate security measure to ensure that personal information is not disclosed to any person who has no right to receive it.

14 **Right to withdraw consent**

In the limited circumstances where you may have provided your consent to the collection, processing and transfer of your personal information for a specific purpose, you have the right to withdraw your consent for that specific processing at any time. To withdraw your consent, please contact the Head of Client Relations at SICO B.S.C.(c) in writing at clients@sicobank.com. Once we have received notification that you have withdrawn your consent, we will no longer process your information for the purpose or purposes you originally agreed to, unless we have another legitimate basis for doing so in law.

15 **Changes to this privacy notice**

We reserve the right to update this privacy notice at any time, and we will provide you with a new privacy notice when we make any substantial updates. We may also notify you in other ways from time to time about the processing of your personal information.

If you have any questions about this privacy notice, please contact the Head of Client Relations at SICO B.S.C.(c) in writing at clients@sicobank.com.

ANNEXURE 1

Audited financial statements for the year ended 31 December 2018

National Bank of Bahrain BSC

Financial Statements - 31 December 2018

KPMG Fakhro
Audit
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Kingdom of Bahrain

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CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

Report on the audit of the financial statements

Opinion
We have audited the accompanying financial statements of National Bank of Bahrain BSC (the "Bank"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Description	How the matter was addressed in our audit

We focused on this area because:
• of the significance of loans and advances (representing 37% of total assets) and the related estimation uncertainty to the financial statements; and
• IFRS 9 "Financial Instruments" (IFRS 9) was adopted by the Bank on 1 January 2018 and has resulted in:
  o change in accounting policies for impairment including the need for making complex estimates and judgment over both timing and recognition of impairment;
  o transition adjustments on 1 January 2018, being the date of adoption in retained earnings;
	Our audit procedures, amongst others, to address significant risks associated with impairment included:
	• Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice.
	• Confirming our understanding of management's new or revised processes, systems and controls implemented, including controls over expected credit loss ("ECL") model development.
	Controls testing
	We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and applications controls over key systems used in the ECL process. Key aspects of our control testing involved the following:
	• Performing detailed credit risk assessment for a sample of performing and non-performing loans to test controls over credit rating and its monitoring process;

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

- use of statistical models and methodologies for determination of expected credit losses;
- significant change in processes, data and control that have not been subject to testing previously; and
- complex disclosure requirements regarding impact of initial application of IFRS 9 and credit quality of the portfolio including explanation of key judgements and material inputs used in determination of expected credit losses.

- Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the IFRS 9 impairment models;
- Testing controls over the transfer of data between underlying source systems and the impairment models that the Bank operates;
- Evaluating controls over the modelling process, including governance over model monitoring, validation and approval;
- Evaluating controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays; and
- Testing key controls relating to selection and implementation of material economic variables.

Test of details

Key aspects of our testing involved:

- Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used;
- Re-performing key aspects of the Bank's significant increase in credit risk ("SICR") determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified;
- Re-performing key elements of the Bank's model calculations and assessing performance results for accuracy; and
- Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data.

Use of specialists

For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in determining expected credit losses. Key aspects of their involvement include:

- We involved our Information Risk Management specialists to test controls over the new IT systems, recording of data in source systems and transfer of data between source systems and the impairment models;
- We involved our Financial Risk Management specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling by reference to our own knowledge and external market data and economic conditions. This typically included challenging key assumptions/judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, recovery rates, use macro-economic variables and probability weighted outcomes.

Disclosures

We assessed the adequacy of the Bank's disclosure in relation to transition impact arising from first time application of IFRS 9, new accounting policies, use of significant estimates and judgement and credit quality of loans and advances by reference to the requirements of relevant accounting standards.

Other information

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

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

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements for the year ended 31 December 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

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

a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith;
b) the financial information contained in the board of directors report is consistent with the financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

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

KPMG

KPMG Fakhro
Partner registration number 83
28 January 2019

Statement of Financial Position

As at 31 December	Note	2018 BD millions	2018 US$ millions	2017 BD millions	2017 US$ millions
Assets					
Cash and balances at central banks	4	**107.3**	**285.4**	107.0	284.7
Treasury bills	5	**387.1**	**1,029.5**	419.9	1,116.8
Placements with banks and other financial institutions	6	**259.7**	**690.6**	174.0	462.8
Loans and advances	7	**1,190.1**	**3,165.2**	1,226.9	3,262.9
Investment securities	8	**1,132.2**	**3,011.2**	1,067.3	2,838.6
Investment in associates	9	**51.6**	**137.2**	51.6	137.2
Interest receivable and other assets	10	**50.9**	**135.4**	41.8	111.1
Property and equipment	19	**16.6**	**44.1**	13.0	34.7
Total assets		**3,195.5**	**8,498.6**	3,101.5	8,248.8
Liabilities					
Due to banks and other financial institutions	11	**381.4**	**1,014.4**	384.0	1,021.3
Borrowings under repurchase agreements	12	**103.9**	**276.3**	67.8	180.4
Customer deposits	13	**2,190.6**	**5,826.1**	2,165.2	5,758.6
Interest payable and other liabilities	14	**43.8**	**116.5**	36.6	97.2
Total liabilities		**2,719.7**	**7,233.3**	2,653.6	7,057.5
Equity					
Share capital	20	**140.3**	**373.1**	127.5	339.2
Shares unallocated under share incentive scheme	20	**(1.5)**	**(4.0)**	(1.7)	(4.4)
Share premium	21	**5.0**	**13.2**	4.0	10.7
Statutory reserve	21	**70.1**	**186.4**	63.8	169.6
General reserve	21	**32.4**	**86.2**	32.4	86.1
Other reserves and retained earnings	21	**229.5**	**610.4**	221.9	590.1
Total equity		**475.8**	**1,265.3**	447.9	1,191.3
Total liabilities and equity		**3,195.5**	**8,498.6**	3,101.5	8,248.8

The board of directors approved the financial statements consisting of pages 1 to 45 on 28 January 2019 and signed on its behalf by:

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Essam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

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

National Bank of Bahrain BSC

Statement of Profit or Loss

For the year ended 31 December		2018		2017	
	Note	**BD millions**	**US$ millions**	BD millions	US$ millions
Interest income	*23*	**126.8**	**337.3**	102.1	271.5
Interest expense	*23*	**(39.6)**	**(105.4)**	(29.0)	(77.2)
Net interest income		**87.2**	**231.9**	73.1	194.3
Other income	*24*	**30.2**	**80.3**	31.4	83.5
Total operating income		**117.4**	**312.2**	104.5	277.8
Staff expenses	*25*	**26.0**	**69.1**	21.3	56.6
Other expenses		**15.8**	**42.0**	11.7	31.1
Total operating expenses		**41.8**	**111.1**	33.0	87.7
Profit before impairment provisions		**75.6**	**201.0**	71.5	190.1
Net impairment provisions	*15*	**(5.6)**	**(14.9)**	(10.5)	(27.8)
Profit for the year		**70.0**	**186.1**	61.0	162.3
Basic and diluted earnings per share	*38*	**50 fils**	**13 cents**	44 fils	12 cents

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Essam Abdulla Fakhro
Deputy Chairman

Jean-Christophe Durand
Chief Executive Officer

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

National Bank of Bahrain BSC

Statement of Comprehensive Income

For the year ended 31 December	2018		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Profit for the year	**70.0**	**186.1**	61.0	162.3
Other comprehensive income:				
Items that are, or may be, reclassified to profit or loss:				
Fair value through other comprehensive income				
Net change in fair value	**(8.9)**	**(23.7)**	1.1	3.0
Net amount transferred to profit or loss	**-**	**-**	(0.2)	(0.6)
Items that will not be reclassified to profit or loss:				
Fair value through other comprehensive income	**5.5**	**14.6**	-	-
Total other comprehensive income for the year	**(3.4)**	**(9.1)**	0.9	2.4
Total comprehensive income for the year	**66.6**	**177.0**	61.9	164.7

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

National Bank of Bahrain BSC

Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital	Unallocated Shares	Share premium	Statutory reserve	General reserve	Other reserves and retained earnings: Fair value reserve	Donation and charity reserve	Retained earnings	Total: BD millions	US$ millions
Balance at 31 December 2017	127.5	(1.7)	4.0	63.8	32.4	26.1	16.0	179.8	447.9	1,191.3
Impact of adopting IFRS 9 as at 1 January 2018	-	-	-	-	-	(12.7)	-	9.9	(2.8)	(7.4)
Impact of adopting IFRS 9 by associates	-	-	-	-	-	-	-	(4.1)	(4.1)	(10.9)
Balance at 1 January 2018	127.5	(1.7)	4.0	63.8	32.4	13.4	16.0	185.6	441.0	1,173.0
2017 appropriations:										
Cash dividend at 25%	-	-	-	-	-	-	-	(31.5)	(31.5)	(83.8)
Bonus shares issued 10%	12.8	(0.1)	-	-	(12.8)	-	-	0.1	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	3.1	(3.1)	-	-
Transfer to general reserve	-	-	-	-	19.1	-	-	(19.1)	-	-
Transfer to statutory reserve	-	-	-	6.3	(6.3)	-	-	-	-	-
Balance after 2017 appropriations	140.3	(1.8)	4.0	70.1	32.4	13.4	19.1	132.0	409.5	1,089.2
Employee shares allocated	-	0.3	1.0	-	-	-	-	-	1.3	3.7
Comprehensive income for the year:									-	-
Profit for the year	-	-	-	-	-	-	-	70.0	70.0	186.1
Other comprehensive income	-	-	-	-	-	(3.4)	-	-	(3.4)	(9.1)
Total comprehensive income for the year	-	-	-	-	-	(3.4)	-	70.0	66.6	176.9
Utilisation of donation and charity reserve	-	-	-	-	-	-	(1.6)	-	(1.6)	(4.5)
Balance at 31 December 2018 (note 20-22)	140.3	(1.5)	5.0	70.1	32.4	10.0	17.5	202.0	475.8	1,265.3

The appropriations for the year 2018 will be submitted to the shareholders at the annual general meeting. These appropriations include BD 35.1 million for cash dividend at 25% (2017: 25%), BD 3.5 million for donations and contributions and a transfer of BD 21.0 million from retained earnings to general reserve. The Board of Directors has also proposed a one for ten bonus issue through utilisation of BD 14.0 million from general reserve and the transfer of BD 7.0 million from general reserve to statutory reserve.

For the year ended 31 December 2017

	Share capital	Unallocated Shares	Share premium	Statutory reserve	General reserve	Other reserves and retained earnings: Fair value reserve	Donation and charity reserve	Retained earnings	Total: BD millions	US$ millions
Balance at 1 January 2017	116.0	(1.6)	2.5	58.0	32.4	25.2	14.6	167.5	414.6	1,102.7
2016 appropriations:										
Cash dividend at 25%	-	-	-	-	-	-	-	(28.7)	(28.7)	(76.2)
Bonus shares issued 10%	11.5	(0.2)	-	-	(11.5)	-	-	0.2	-	-
Transfer to donations and charity reserve	-	-	-	-	-	-	2.9	(2.9)	-	-
Transfer to general reserve	-	-	-	-	17.3	-	-	(17.3)	-	-
Transfer to statutory reserve	-	-	-	5.8	(5.8)	-	-	-	-	-
Balance after 2016 appropriations	127.5	(1.8)	2.5	63.8	32.4	25.2	17.5	118.8	385.9	1,026.5
Employee shares allocated	-	0.1	1.5	-	-	-	-	-	1.6	4.2
Comprehensive income for the year:										
Profit for the year	-	-	-	-	-	-	-	61.0	61.0	162.3
Other comprehensive income	-	-	-	-	-	0.9	-	-	0.9	2.4
Total comprehensive income for the year	-	-	-	-	-	0.9	-	61.0	61.9	164.7
Utilisation of donation and charity reserve	-	-	-	-	-	-	(1.5)	-	(1.5)	(4.1)
Balance at 31 December 2017 (note 20-22)	127.5	(1.7)	4.0	63.8	32.4	26.1	16.0	179.8	447.9	1,191.3

Unallocated shares are shares that remain unallocated to employees under the employee share incentive scheme

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

National Bank of Bahrain BSC

Statement of Cash Flows

For the year ended 31 December		**2018**		2017	
	Note	**BD millions**	**US$ millions**	BD millions	US$ millions
Cash flows from operating activities					
Profit for the year		**70.0**	**186.1**	61.0	162.3
Adjustments to reconcile profit for the year to net cash from operating activities:					
Depreciation		**2.0**	**5.4**	1.8	4.7
Net impairment provisions	*15*	**5.6**	**14.9**	10.4	27.6
Share of profit of associates		**(5.4)**	**(14.4)**	(3.7)	(9.8)
Profit for the year after adjustments		**72.2**	**192.0**	69.5	184.8
Changes in operating assets and liabilities					
Balances with central banks (mandatory cash reserves)		**7.8**	**20.7**	1.1	2.9
Treasury bills		**52.1**	**138.6**	18.6	49.6
Placements with banks and other financial institutions		**2.6**	**6.8**	16.3	43.4
Loans and advances		**27.7**	**73.7**	(205.3)	(546.1)
Investment securities		**(75.0)**	**(199.1)**	24.8	66.1
Interest receivable and other assets		**(0.7)**	**(1.8)**	0.3	0.8
Due to banks and other financial institutions		**(2.6)**	**(7.0)**	10.2	27.1
Borrowings under repurchase agreements		**36.1**	**96.0**	3.5	9.4
Customer deposits		**25.4**	**67.5**	76.9	204.4
Interest payable and other liabilities		**7.7**	**20.3**	0.6	1.6
Net cash from operating activities		**153.3**	**407.7**	16.5	44.0
Cash flows from investing activities					
Dividend received from associates		**1.2**	**3.1**	2.3	6.1
Purchase of property and equipment, net		**(5.7)**	**(15.2)**	(2.4)	(6.3)
Net cash used in investing activities		**(4.5)**	**(12.1)**	(0.1)	(0.2)
Cash flows from financing activities					
Dividends paid		**(31.5)**	**(83.9)**	(28.5)	(76.0)
Donations and charities paid		**(1.6)**	**(4.3)**	(1.5)	(4.2)
Net cash used in financing activities		**(33.1)**	**(88.2)**	(30.0)	(80.2)
Net (decrease)/increase in cash and cash equivalents		**115.7**	**307.4**	(13.6)	(36.4)
Cash and cash equivalents at 1 January	*4*	**195.2**	**519.1**	208.8	555.5
Cash and cash equivalents at 31 December	*4*	**310.9**	**826.5**	195.2	519.1

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

Notes to the Financial Statements
For the year ended 31 December 2018

1. REPORTING ENTITY

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

b. Basis of preparation
The financial statements of the Bank are presented in Bahraini Dinar (BD) being the functional currency of the Bank. The US Dollar (US$) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US Dollar at the rate of BD 0.376 to US$ 1 (2017: BD 0.376 to US$ 1).

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

i) New standards, amendments and interpretations effective from 1 January 2018:
The Bank has adopted IFRS 9 'Financial Insturments' and IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018.

A. IFRS 9 Financial Instruments
IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below.

i) Changes in accounting policies
Classification of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-for-trading, held-to-maturity, available-for-sale and loans and receivables.

Notes to the Financial Statements
For the year ended 31 December 2018

i) Changes in accounting policies (continued)

IFRS 9 removes the requirement contained in IAS 39 relating to bifurcation of an embedded derivative from an asset host contract. However, entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities with the exception of the treatment of the Bank's own credit gains and losses, which arise where a bank has chosen to measure a liability at fair value through profit or loss, these gains and losses are recognised in other comprehensive income. There continue to be two measurement categories for financial liabilities: fair value and amortised cost.

Impairment of financial assets
IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ('ECL') model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

The Bank applies a three-stage approach to measuring ECL on financial assets carried at amortised cost and debt instruments classified as FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL
Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. 12-month ECL is the expected credit losses that result 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 event will occur in the next 12 months.

Stage 2: Lifetime ECL - not credit impaired
Stage 2 includes financial assets 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 financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognised based on discounted cash flow methods based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset. For these assets, lifetime ECL is recognised based on discounted cash flow methods.

Hedge accounting
At inception of the hedging relationship, the management undertakes a formal designation and documentation. This includes the Bank's risk management objective underlying the hedging relationship and how that fits within the overall risk management strategy. The documentation also includes an identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements. IFRS 9 also requires documentation of the hedge ratio and potential sources of ineffectiveness

ii) Changes to significant estimates and judgements
Credit risk grades
The Bank has an internal credit rating model that uses qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. The credit grades are calibrated such that the risk of default increases at each higher risk grade. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The Bank also uses external credit ratings for certain exposures.

Notes to the Financial Statements
For the year ended 31 December 2018

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank's historical experience and expert credit assessment and includes forward-looking information.

In determining whether credit risk has increased significantly since initial recognition the following criteria are considered:

I. Downgrade in risk rating according to the approved ECL policy.
II. Facilities restructured during the previous twelve months.
III. Facilities overdue by 30 days as at the reporting date subject to rebuttal in applicable circumstances.

Measurement of expected credit losses
The estimation of credit exposure for risk management purposes is complex and requires the use of models. The exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios, and of default correlations between counterparties. The Bank measures expected credit loss using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The Bank employs statistical models to analyse the data collected and generate estimates of 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 changes in key macro-economic factors, across the various geographies in which the Bank has exposures.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and the associated recovery cost.

iii) Impact of adopting IFRS 9
The impact from the adoption of IFRS 9 as at 1 January 2018 has resulted in an increase in retained earnings by BD 5.8 million and a decrease in the fair value reserve by BD 12.7 million:

	Retained earnings BD millions	**Fair value reserve** BD millions
Closing balance under IAS 39 (31 December 2017)	179.8	26.1
Impact on reclassification and remeasurements:		
Investment securities (equity) from available-for-sale to those measured at fair value through other comprehensive income	14.2	(14.2)
	194.0	11.9
Impact on recognition of expected credit losses		
Investment securities - (debt) at fair value through other comprehensive income	(1.5)	1.5
Loans and advances	0.3	-
Loan commitments and financial guarantees	(3.1)	-
	(4.3)	1.5
Impact of adopting IFRS 9 by associates	(4.1)	-
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**185.6**	**13.4**

Notes to the Financial Statements
For the year ended 31 December 2018

iv) Classification and measurement of financial instruments

The Bank performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount	Impact of IFRS9 re-measurement	New carrying amount
			BD millions	BD millions	BD millions
Financial assets					
Cash and balances with central banks	Loans and receivables	Amortised cost	107.0	-	107.0
Treasury bills	Held-to-maturity	Amortised cost	419.9	-	419.9
Placements with banks and other financial institutions	Loans and receivables	Amortised cost	174.0	-	174.0
Loans and advances	Loans and receivables	Amortised cost	1,226.9	0.3	1,227.2
Investment securities			**1,067.3**	**-**	**1,067.3**
Debt insturments	*Available-for-sale*	*FVOCI*	*1,017.9*	-	*1,017.9*
Equity insturments	*Held-for-trading*	*FVTPL*	*0.3*	-	*0.3*
Equity insturments	*Available-for-sale*	*FVOCI*	*49.1*	-	*49.1*
Interest receivable and other assets	Loans and receivables	Amortised cost	41.8	-	41.8
			3,036.9	**0.3**	**3,037.2**

As at 1 July 2018, the Bank has reclassified debt instruments amounting to BD 685.4 million from fair value through other comprehensive income (FVOCI) category to amortised cost category to more accurately reflect the Bank's new strategic intention for the portfolio. The Bank intends to collect the contractual cash flows which represent solely the payment of principal and interest.

All financial liabilities are measured at amortised cost.

Notes to the Financial Statements
For the year ended 31 December 2018

v) Expected credit loss / impairment allowances

The following reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018:

	31 December 2017	**Re-measurement**	**1 January 2018**
			BD millions
Loans and advances	42.7	(0.3)	42.4
Available-for-sale debt securities under IAS 39/debt securities at FVOCI under IFRS 9	-	1.5	1.5
Loan commitments and financial guarantees	-	3.1	3.1
	42.7	**4.3**	**47.0**

vi) ECL impact on exposure as at 1 January 2018

	Stage 1	**Stage 2**	**Stage 3**	**Total**
				BD millions
Exposure subject to ECL as at 1 January 2018				
Loans and advances	1,151.0	29.9	88.7	**1,269.6**
Treasury bills	419.9	-	-	**419.9**
Investment securities (debt)	1,017.9	-	-	**1,017.9**
Placements with banks and other financial institutions	174.0	-	-	**174.0**
	2,762.8	**29.9**	**88.7**	**2,881.4**
ECL as at 1 January 2018				
Loans and advances	9.4	1.6	31.4	**42.4**
Treasury bills	-	-	-	**-**
Investment securities (debt)	1.5	-	-	**1.5**
Placements with banks and other financial institutions	-	-	-	**-**
	10.9	**1.6**	**31.4**	**43.9**

ECL on loan commitments and financial guarantees is captured under other liabilities and amounts to BD 3.1 million.

B. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients.The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

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

A. IFRS 16 Leases

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

Notes to the Financial Statements
For the year ended 31 December 2018

A. IFRS 16 Leases (continued)

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases-incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease.

The Bank plans to apply IFRS 16 on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019.

The adoption of the standard will not have a significant impact on the financial position of the Bank.

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

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

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value of the financal insturments.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss.

Applicable from 1 January 2018
Refer to note 2.b.a.ii "Changes to significant estimates and judgements"

Applicable before 1 January 2018
The Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the

decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based

Notes to the Financial Statements
For the year ended 31 December 2018

d. Use of estimates and management judgement (continued)

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

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

e. Accounting for income and expenses

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

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

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

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

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

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

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

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

f. Financial assets and liabilities

i. Recognition and initial measurement

The Bank initially recognised loans and advances and deposits on the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

Notes to the Financial Statements
For the year ended 31 December 2018

ii. Classification (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment
The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining practical interest rate profile, realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

Notes to the Financial Statements
For the year ended 31 December 2018

Assessment whether contractual cash flows are solely payments of principal and interest (continued)

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. There reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Bank has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Applicable before 1 January 2018

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

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

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

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

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

values of available-for-sale investments are recognised in other comprehensive income. The cumulative fair value adjustments on available-for-sale investments which are sold or otherwise disposed of and which had previously been recognised in other comprehensive inome are transferred to the statement of profit or loss.

The Bank classifies its financial liabilities, other than financial guarantees, as measured at amortised cost.

Notes to the Financial Statements
For the year ended 31 December 2018

iii. Reclassifications
Applicable from 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Applicable before 1 January 2018

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

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

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

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

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

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

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

vii. Repos and reverse repos
Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as borrowings under repurchase agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised on the statement of financial position and the consideration paid is recorded in placements with banks and other financial institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective interest rate method.

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

Notes to the Financial Statements
For the year ended 31 December 2018

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

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

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

x. Identification and measurement of impairment
Applicable from 1 January 2018

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
- Financial assets including loans and advances, debt instruments and placements;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

Applicable before 1 January 2018

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

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

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

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

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

Notes to the Financial Statements
For the year ended 31 December 2018

x. Identification and measurement of impairment (continued)

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

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

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

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

xi. Derecognition of financial assets and liabilities

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

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

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

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

- If the expected restructuring will not result in derecognition of an existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Notes to the Financial Statements
For the year ended 31 December 2018

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

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

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

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

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

i. Property and equipment
Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

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

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

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

Notes to the Financial Statements
For the year ended 31 December 2018

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

k. Off-setting (continued)

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

l. Settlement date accounting
All "regular way" purchases and sales of financial assets except for derivatives and assets classified as fair value through profit or loss are recognised on the settlement date i.e. the date the Bank receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative and assets classified as fair value through profit or loss transactions are recognised on trade date, representing the date the Bank contracts to purchase or sell.

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

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

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

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

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

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

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

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

Notes to the Financial Statements
For the year ended 31 December 2018

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

3. FINANCIAL RISK MANAGEMENT
The Bank is exposed to the following types of risks:

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

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

The Board Risk Committee is responsible for identifying and monitoring risks within the framework of the risk appetite established by the Board of Directors including reviewing and reporting its conclusions and recommendations to the Board on the Bank's current and future risk appetite, the Bank's risk management framework as well as the Bank's risk culture.

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

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

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

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

The Bank's internal ratings are based on a 16-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Risk ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Bank also uses the ratings by established rating agencies as part of the appraisal process while considering exposures to rated entities.

Notes to the Financial Statements
For the year ended 31 December 2018

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

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

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

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

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

The Central Bank of Bahrain's (CBB) Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain. The framework emphasises common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in the countries in which the Bank has branches. The Bank has complied with all regulatory capital requirements throughout the year.

Notes to the Financial Statements for the year ended 31 December 2018

4 CASH AND CASH EQUIVALENTS

As at 31 December	2018		2017	
	BD millions	US$ millions	BD millions	US$ millions
Cash and balances at centeral banks	107.3	285.4	107.0	284.7
Less: mandatory cash reserves	(75.5)	(200.8)	(83.3)	(221.6)
	31.8	84.6	23.7	63.0
Treasury bills (less than 3 months)	19.3	51.2	-	-
Placements with banks (less than 3 months)	259.8	690.7	171.5	456.1
	310.9	826.5	195.2	519.1

5 TREASURY BILLS

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

As at 31 December	2018		2017	
	BD millions	US$ millions	BD millions	US$ millions
Government of Bahrain	377.1	1,002.9	409.9	1,090.2
Government of Saudi Arabia	10.0	26.6	10.0	26.6
	387.1	1,029.5	419.9	1,116.8

6 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

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

As at 31 December	2018		2017	
	BD millions	US$ millions	BD millions	US$ millions
Placements with banks	257.8	685.5	158.2	420.8
Placements with other financial institutions	1.9	5.1	15.8	42.0
	259.7	690.6	174.0	462.8

As at 31 December	2018		2017	
	BD millions	US$ millions	BD millions	US$ millions
Term placements	244.5	650.2	158.9	422.7
Current and call accounts	15.2	40.4	15.1	40.1
	259.7	690.6	174.0	462.8

7 LOANS AND ADVANCES

a) As at 31 December	2018		2017	
	BD millions	US$ millions	BD millions	US$ millions
Loans and advances to non-banks	1,157.3	3,078.1	1,112.8	2,959.5
Loans and advances to banks	82.2	218.5	156.8	417.0
Less: Provision for impairment	(49.4)	(131.4)	(42.7)	(113.6)
	1,190.1	3,165.2	1,226.9	3,262.9

b) As at 31 December 2018, the amount of floating rate loans for which interest was being reset by the Bank on agreed dates and based on an agreed fixed margin over a benchmark interest rate, amounted to BD 466.2 million (US$ 1,239.9 million) [31 December 2017: BD 612.7 million (US$ 1,629.4 million)].

Notes to the Financial Statements for the year ended 31 December 2018

7 LOANS AND ADVANCES (Continued)

c) In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are immediately defined as non-performing. Any interest accrued is reversed and future interest is only recognised on a cash basis. The ageing schedule of non-performing loans and advances based on the time period since the last repayment of principal or interest by the customer, is as follows:

As at 31 December	2018		2017	
	BD millions	US$ millions	BD millions	US$ millions
Up to 3 months (subject to cooling off period)	**53.5**	**142.3**	-	-
Over 3 months to 1 year	**12.5**	**33.2**	25.7	68.3
1 to 3 years	**26.1**	**69.4**	13.3	35.5
Over 3 years	**9.2**	**24.5**	48.7	129.6
	47.8	**127.1**	87.7	233.4
Total	**101.3**	**269.4**	87.7	233.4
Fair market value of collateral	**132.8**	**353.2**	113.2	301.1
Stage 3/Specific provision for impairment	**(36.5)**	**(97.1)**	(30.2)	(80.5)

In accordance with the Central Bank of Bahrain guidelines, loans that have been classified as non-perfoming should remain classified as non-performing for a cooling off period of not less than 1 year from the date of becoming performing.

Loans that are past due below 90 days but not impaired are those for which contractual interest or principal payments are past due but the Bank believes that specific impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Bank. As at 31 December 2018, loans past due below 90 days but not impaired amounted to BD 11.3 million (US$ 29.9 million) [31 December 2017: BD 9.9 million (US$ 26.3 million)].

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

The Bank renegotiates loans to customers as a result of changes in anticipated cash flows and / or in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. During 2018, credit facilities amounting to BD 3.7 million (US$ 9.8 million) were restructured [2017: BD 0.1 million]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash flow situations or to realign the repayment with the borrower's revised cash flow projections, and amending the terms of loan covenants. Due to the minor nature of concessions, there was no significant impact on the Bank's impairment charge or the future earnings. In accordance with the Central Bank of Bahrain guidelines, loans that have been restructured should reported as stage 2 for not less than 1 year from the date of restructuring.

e) The Bank holds collateral against loans and advances to customers in the form of lien over deposits, mortgage over properties and/or shares and sovereign/bank guarantees. Some of these collaterals are held through a special purpose vehicle. As at 31 December 2018, loans and advances amounting to BD 292.1 million (US$ 776.8 million) [31 December 2017: BD 340.2 million (US$ 904.8 million)] were fully collateralised and loans and advances amounting to BD 44.4 million (US$ 118.1 million) [31 December 2017: BD 48.9 million (US$ 130.1 million)] were partly collateralised with a collateral value of BD 19.2 million (US$ 51.0 million) [31 December 2017: BD 29.2 million (US$ 77.7 million)].

Notes to the Financial Statements for the year ended 31 December 2018

7 LOANS AND ADVANCES (Continued)

f) Exposure to credit risk

As at 31 December	2018		2017	
	BD millions	US$ millions	BD millions	US$ millions
Total carrying amount	**1,190.1**	**3,165.2**	1,226.9	3,262.9
1. Individually impaired				
Substandard	**91.1**	**242.2**	77.7	206.8
Doubtful	**1.9**	**5.1**	1.9	5.1
Loss	**8.3**	**22.1**	8.1	21.5
Individually impaired	**101.3**	**269.4**	87.7	233.4
Stage 3/Specific provision for impairment	**(36.5)**	**(97.1)**	(30.2)	(80.5)
Individually impaired carrying amount	**64.8**	**172.3**	57.5	152.9
2. Past due below 90 days but not impaired				
Gross amount	**11.3**	**31.1**	9.9	26.3
Stage 1 or 2/Collective impairment provision	**(0.2)**	**(0.5)**	(0.1)	(0.3)
Past due but not impaired carrying amount	**11.1**	**30.6**	9.8	26.0
3. Neither past due nor impaired by internal rating				
Rated 1	**26.8**	**71.3**	55.9	148.6
Rated 2	**48.5**	**129.0**	4.9	13.0
Rated 3	**78.2**	**208.0**	81.9	217.9
Rated 4+ to 4-	**136.7**	**363.4**	107.2	285.1
Rated 5+ to 5-	**215.8**	**573.9**	199.2	529.8
Rated 6+ to 6-	**77.0**	**204.8**	129.7	345.1
Rated 7	**130.5**	**347.0**	171.9	457.2
Unrated	**413.4**	**1,098.7**	421.3	1,120.2
Gross amount	**1,126.9**	**2,996.1**	1,172.0	3,116.9
Stage 1 or 2/Collective impairment provision	**(12.7)**	**(33.8)**	(12.4)	(32.9)
Carrying amount of neither past due nor impaired	**1,114.2**	**2,962.3**	1,159.6	3,084.0
Total carrying amount	**1,190.1**	**3,165.2**	1,226.9	3,262.9

Unrated includes mainly consumer loans and other facilities that are not assigned any ratings at inception.

By staging

As at 31 December 2018

	Stage 1 BD millions	Stage 2 BD millions	Stage 3 BD millions	Total BD millions	Total US$ millions
Loans and advances	**1,085.5**	**52.7**	**101.3**	**1,239.5**	**3,296.6**
Less: impairment provision	**(6.6)**	**(6.3)**	**(36.5)**	**(49.4)**	**(131.4)**
Net loans and advances	**1,078.9**	**46.4**	**64.8**	**1,190.1**	**3,165.2**

g) Impairment provisions on loans and advances

Impairment movement (IFRS9) - 2018

	Stage 1 BD millions	Stage 2 BD millions	Stage 3 BD millions	Total BD millions	Total US$ millions
Impairment at 1 January 2018	**9.4**	**1.6**	**31.4**	**42.4**	**112.8**
Net transfer between stages	**(1.2)**	**(0.4)**	**1.6**	**-**	**-**
Write off during the year	**-**	**-**	**(2.2)**	**(2.2)**	**(5.9)**
Charge for the year (net)	**(1.6)**	**5.1**	**5.7**	**9.2**	**24.5**
Impairment at 31 December 2018	**6.6**	**6.3**	**36.5**	**49.4**	**131.4**

Impairment movement (IAS39) - 2017

Movements during the year	Specific impairment provision	Collective impairment provision	Total impairment provisions	Total impairment provisions
	BD millions	BD millions	BD millions	US$ millions
At 1 January 2017	36.5	13.0	49.5	131.7
Net charge for the year	9.2	1.2	10.4	27.7
Amounts written off against provision	(17.3)	-	(17.3)	(46.0)
Transfers, recoveries & write backs	1.8	(1.7)	0.1	0.3
Impairment at 31 December 2017	30.2	12.5	42.7	113.7

Notes to the Financial Statements for the year ended 31 December 2018

8 INVESTMENT SECURITIES

i. Investment securities comprise the following:

As at 31 December 2018	**FVTPL BD millions**	**FVOCI BD millions**	**Amortised cost BD millions**	**Total BD millions**	**Total US$ millions**
Quoted investments:					
Debt instruments	**-**	**301.6**	**-**	**301.6**	**802.1**
Equity instruments	**-**	**43.6**	**-**	**43.6**	**115.9**
Total quoted investments	**-**	**345.2**	**-**	**345.2**	**918.0**
Unquoted investments:					
Debt instruments	**-**	**-**	**775.5**	**775.5**	**2,062.4**
Equity instruments	**0.4**	**11.1**	**-**	**11.5**	**30.8**
Total unquoted investments	**0.4**	**11.1**	**775.5**	**787.0**	**2,093.2**
Total investment instruments	**0.4**	**356.3**	**775.5**	**1,132.2**	**3,011.2**

As at 31 December 2017	Trading BD millions	Available-for-sale BD millions	Held to maturity BD millions	Total BD millions	Total US$ millions
Quoted investments:					
Debt instruments	-	332.5	-	332.5	884.3
Equity instruments	-	52.5	-	52.5	139.7
Total quoted investments	-	385.0	-	385.0	1,024.0
Unquoted investments:					
Debt instruments	-	685.4	-	685.4	1,822.9
Equity instruments	0.2	10.9	-	11.1	29.5
Total unquoted investments	0.2	696.3	-	696.5	1,852.4
Investment instruments	0.2	1,081.3	-	1,081.5	2,876.4
Less: impairment provision	-	(14.2)	-	(14.2)	(37.8)
Net investment instruments	0.2	1,067.1	-	1,067.3	2,838.6

ii. Breakdown between repricing nature of debt instruments

As at 31 December	**2018**		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Fixed rate debt instruments	**484.0**	**1,287.1**	350.5	932.3
Floating rate debt instruments	**593.1**	**1,577.4**	667.4	1,774.9
	1,077.1	**2,864.5**	1,017.9	2,707.2

iii. Breakdown of debt instruments by rating

The ratings given below are by established rating agencies.

As at 31 December	**2018**		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
AAA	**13.8**	**36.7**	24.1	64.2
AA	**12.9**	**34.3**	13.3	35.3
A	**11.8**	**31.4**	21.7	57.8
BBB	**3.7**	**9.8**	3.7	9.9
BB	**7.0**	**18.6**	11.3	30.1
B	**1,014.9**	**2,699.1**	930.5	2,474.4
Unrated	**13.0**	**34.6**	13.3	35.5
	1,077.1	**2,864.5**	1,017.9	2,707.2

The debt instruments rated B primarily represent instruments issued by sovereigns.

As at 31 December 2018, all debt instruments were classified as stage 1.

Notes to the Financial Statements for the year ended 31 December 2018

iv. Investments designated as fair value through profit or loss
The Bank holds investment in managed funds designated as fair value through profit or loss amounting to BD 0.4 million (US$ 1.1 million) [2017: BD 0.2 million (US$ 0.7 million)]

9 INVESTMENT IN ASSOCIATES
The Bank has a 29.06% shareholding in Bahrain Islamic Bank BSC. The Bahrain Islamic Bank is incorporated in the Kingdom of Bahrain and operates under a retail banking license issued by the Central Bank of Bahrain and carries out banking and other financial trading activities.

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

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

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

	2018		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Opening balance	**51.6**	**137.2**	50.1	133.2
Impact of adopting IFRS 9 by associates	**(4.1)**	**(10.9)**	-	-
At 1 January	**47.5**	**126.3**	50.1	133.2
Share of profit	**5.4**	**14.4**	3.8	10.0
Dividends received	**(1.2)**	**(3.2)**	(2.3)	(6.1)
Other movements	**(0.1)**	**(0.3)**	0.0	0.1
At 31 December	**51.6**	**137.2**	51.6	137.2

Shares of Bahrain Islamic Bank are listed on the Bahrain Bourse and the quoted price on 31 December 2018 is BD 0.130 (31 December 2017: BD 0.150). The estimated fair value of the investment based on this price is BD 40.2 million (US$ 106.9 million) [(31 December 2017: BD 44.2 million) (US$ 117.5 million)].

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

10 INTEREST RECEIVABLE AND OTHER ASSETS

As at 31 December	**2018**		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Interest receivable	**28.9**	**76.9**	24.3	64.7
Accounts receivable & prepayments	**6.4**	**17.0**	9.0	23.8
Positive fair value of derivatives	**10.2**	**27.1**	4.2	11.1
Others	**5.4**	**14.4**	4.3	11.5
	50.9	**135.4**	41.8	111.1

Others include BD 5.2 million (US$ 14.0 million) [31 December 2017: BD 4.2 million (US$ 11.1 million)] in respect of land and buildings acquired from customers and now held for disposal. The land and buildings are stated at lower of cost and net realisable value.

11 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS
Due to banks and other financial institutions consists of short-term borrowings from banks and other financial institutions.

As at 31 December	**2018**		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Current and call accounts	**30.5**	**81.2**	54.1	143.8
Term deposits	**350.9**	**933.2**	329.9	877.5
	381.4	**1,014.4**	384.0	1,021.3

As at 31 December 2018 and 31 December 2017 the Bank was a net contributor into the treasury bill and interbank money markets.

12 BORROWINGS UNDER REPURCHASE AGREEMENTS
Borrowings under repurchase agreements amount to BD 103.9 million (US$ 276.3 million) [31 December 2017: BD 67.8 million (US$ 180.4 million)] and the fair value of the investment securities pledged as collateral amounts to BD 119.4 million (US$ 317.6 million) [31 December 2017: BD 71.9 million (US$ 191.3 million)].

13 CUSTOMER DEPOSITS

As at 31 December	**2018**		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Repayable on demand or at short notice	**1,181.5**	**3,142.4**	1,223.9	3,255.0
Term deposits	**1,009.1**	**2,683.7**	941.3	2,503.6
	2,190.6	**5,826.1**	2,165.2	5,758.6

Notes to the Financial Statements for the year ended 31 December 2018

14 INTEREST PAYABLE AND OTHER LIABILITIES

As at 31 December	2018		2017	
	BD millions	US$ millions	BD millions	US$ millions
Interest payable	23.0	61.2	18.8	50.0
Employee benefits	10.3	27.4	9.4	24.9
Creditors and account payables	3.2	8.5	3.0	8.0
Deferred income	3.1	8.2	1.4	3.6
Negative fair value of derivatives	0.7	1.9	1.1	3.0
Others	3.5	9.3	2.9	7.7
	43.8	116.5	36.6	97.2

15 NET IMPAIRMENT PROVISIONS

As at 31 December	2018		2017	
	BD millions	US$ millions	BD millions	US$ millions
Loans and advances (note 7g)	9.2	24.5	10.5	27.8
Investment securities – (debt instruments)	(1.3)	(3.5)	-	-
Loan commitments and guarantees	(2.3)	(6.1)	-	-
	5.6	14.9	10.5	27.8

16 CONTINGENT LIABILITIES AND BANKING COMMITMENTS

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

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

As at 31 December	2018		2017	
	BD millions	US$ millions	BD millions	US$ millions
Contingent liabilities				
Liabilities on confirmed documentary credits	27.9	74.2	33.6	89.3
Guarantees :				
Counter guaranteed by banks	39.9	106.1	48.7	129.4
Others	112.0	297.9	117.2	311.8
	179.8	478.2	199.5	530.5
Banking commitments				
Undrawn loan commitments	15.1	40.2	82.9	220.4
Forward commitments:				
Interbank placing	18.8	50.0	8.0	21.3
	33.9	90.2	90.9	241.7
	213.7	568.4	290.4	772.2

Notes to the Financial Statements for the year ended 31 December 2018

17 DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

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

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

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

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

In BD millions	**Notional principal amount**		**Replacement cost**		**Fair value**	
As at 31 December	**2018**	2017	**2018**	2017	**2018**	2017
Interest rate contracts						
Interest rate swaps	**630.2**	651.3	**4.2**	2.2	**4.1**	2.2
Foreign exchange contracts						
Outright spot and forward contracts	**201.2**	293.2	**1.0**	0.9	**0.7**	0.3
Swap agreements	**1,874.1**	490.2	**5.0**	1.2	**4.7**	0.6
Options	**-**	0.9	**-**	-	**-**	-
	2,075.3	784.3	**6.0**	2.0	**5.4**	0.9
Total	**2,705.5**	1,435.6	**10.2**	4.2	**9.5**	3.1
Total in US$ millions	**7,195.5**	3,818.1	**27.1**	11.1	**25.3**	8.1

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

In BD millions		**2018**			2017	
As at 31 December	**Up to 1 year**	**Over 1 year**	**Total**	Up to 1 year	Over 1 year	Total
Interest rate contracts						
Interest rate swaps	**-**	**630.2**	**630.2**	-	651.2	651.2
Foreign exchange contracts						
Outright spot and forward contracts	**191.1**	**10.0**	**201.2**	219.2	74.0	293.2
Swap agreements	**1,874.1**	**-**	**1,874.1**	490.3	-	490.3
Options	**-**	**-**	**-**	0.9	-	0.9
	2,065.2	**10.0**	**2,075.3**	710.4	74.0	784.4
Total	**2,065.2**	**640.2**	**2,705.5**	710.4	725.2	1,435.6
Total in US$ millions	**5,492.7**	**1,702.7**	**7,195.4**	1,889.3	1,928.8	3,818.1

Notes to the Financial Statements for the year ended 31 December 2018

18 CAPITAL EXPENDITURE COMMITMENTS

At 31 December 2018 commitments for capital expenditure amounted to BD 1.4 million (US$ 3.7 million) [31 December 2017: BD 1.00 million (US$ 2.7million)].

19 PROPERTY AND EQUIPMENT

	Land BD millions	Buildings BD millions	Furniture and equipment BD millions	Total BD millions	US$ millions
Cost	1.0	26.2	12.7	39.9	106.0
Accumulated depreciation	-	(18.8)	(4.5)	(23.3)	(61.9)
Net book value at 31 December 2018	**1.0**	**7.4**	**8.2**	**16.6**	**44.1**
Net book value at 31 December 2017	1.0	7.5	4.5	13.0	34.7

The depreciation charge for 2018 amounted to BD 2.0 million (US$ 5.4 million) [2017: BD 1.8 million (US$ 4.7 million)]. The above includes capital work in progress at cost, amounting to BD 1.4 million (US$ 3.7 million) [2017: BD 0.9 million (US$ 2.4 million)]

20 SHARE CAPITAL

	2018		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Authorised share capital				
1,500,000,000 (2017: 1,500,000,000) ordinary shares of 100 fils each	150.0	398.9	150.0	398.9
Issued and fully paid share capital				
At 1 January 1,275,448,416 ordinary shares of 100 fils each (at 1 January 2017: 1,159,498,560 shares of 100 fils each)	**127.5**	**339.2**	115.9	308.4
Bonus issue (one for ten shares held)	**12.8**	**33.9**	11.6	30.8
At 31 December 1,402,993,257 ordinary shares of 100 fils each (at 31 December 2017: 1,275,448,416 shares of 100 fils each)	**140.3**	**373.1**	127.5	339.2

The shareholders annual general ordinary and extra ordinary meetings for the year 2017 held on 7 March 2018 approved the increase of issued and fully paid capital by the issue of bonus shares at the rate of one additional share for every ten shares held and amounted to BD 12.8 million.

The Board of Directors has proposed to increase the authorised share capital. In addition, the Board of Directors has proposed to increase the issued and fully paid capital of the Bank to BD 154.3 million by the issue of bonus shares at the rate of one additional share for every ten shares held amounting to BD 14.0 million. These shares will rank pari passu with all other shares for future dividends and distribution. This bonus issue is proposed to be made through utilisation of BD 14.0 million from the general reserve.

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

	31 December 2018			31 December 2017		
	Number of shares	**Number of shareholders**	**% of total outstanding shares**	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	**408,928,108**	**1,202**	**29.1%**	387,002,253	1,142	30.3%
1% up to less than 5%	**221,494,305**	**9**	**15.8%**	186,109,030	8	14.6%
5% up to less than 10%	**-**	**-**	**-**	-	-	-
10% up to less than 20%	**152,666,220**	**1**	**10.9%**	138,787,474	1	10.9%
20% up to less than 50%	**619,904,624**	**1**	**44.2%**	563,549,659	1	44.2%
	1,402,993,257	**1,213**	**100.0%**	1,275,448,416	1,152	100.0%

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

	31 December 2018			31 December 2017		
	Number of shares	**Number of shareholders**	**% of total outstanding shares**	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	**1,346,956,717**	**1,126**	**96.0%**	1,233,139,708	1,069	96.7%
Other GCC countries	**55,734,765**	**73**	**4.0%**	42,090,218	74	3.3%
Others	**301,775**	**14**	**0.0%**	218,490	9	0.0%
	1,402,993,257	**1,213**	**100.0%**	1,275,448,416	1,152	100.0%

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

Employee share incentive scheme
The employee share incentive scheme ("Scheme") was approved at the ordinary general meeting on 11 March 2015 in pursuant to CBB's Sound Remuneration Practices regulation. As a result, 19,104,000 ordinary shares amounting to BD 1.91 million were issued in 2015 to an independent party to hold the beneficial interest of the shares under the scheme. Shares are allocated to the employees under the scheme. The allocated share under the scheme are entitled to cash and stock dividend and subject to malus and clawback provisions of the scheme. As at 31 December 2018 there are 15,033,197 (2017: 15,659,167) shares unallocated. These unallocated shares under the scheme are deducted from equity.

21 RESERVES

a) Statutory reserve
In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The Board of Directors has proposed to the shareholders to appropriate BD 7.0 million from the general reserve to the statutory reserve.

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

Notes to the Financial Statements for the year ended 31 December 2018

c) Fair value reserve
The fair value reserve includes the cumulative net change in fair value of fair value through other comprehensive income (IAS39: available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired). The fair value reserve also includes the Bank's share of other comprehensive income of associates.

d) Donation and charity reserve
Based on the recommendations of the Board of Directors, upon shareholders' approval an amount is transferred from the profit for the year to this donation and charity reserve. The reserve represents the amount of donations pending utilisation.

e) Share premium
Under the employee share incentive scheme, the Bank has allocated 7,244,494 ordinary shares with a nominal value of BD 0.72 million to the employees, which has resulted in share premium of BD 5.0 million.

22 APPROPRIATIONS
The appropriations relating to the year 2017 were approved at the annual general meeting held on 7 March 2018.

23. INTEREST INCOME / INTEREST EXPENSE

a) INTEREST INCOME

For the year ended 31 December	**2018**		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Loans and advances to non banks	**50.7**	**134.9**	39.1	103.7
Loans and advances to banks	**5.6**	**14.9**	4.4	11.7
Treasury bills	**15.5**	**41.2**	13.6	36.2
Placements with banks and other financial institutions	**1.4**	**3.7**	1.4	3.7
Investment securities	**51.7**	**137.5**	43.3	115.3
Derivative assets held for risk management	**1.9**	**5.1**	0.3	0.9
	126.8	**337.3**	102.1	271.5

b) INTEREST EXPENSE

For the year ended 31 December	**2018**		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Customer deposits	**28.0**	**74.5**	21.7	57.7
Due to banks and other financial institutions	**8.3**	**22.1**	6.1	16.1
Borrowings under repurchase agreements	**1.7**	**4.5**	0.5	1.4
Derivative liabilities held for risk management	**1.6**	**4.3**	0.7	2.0
	39.6	**105.4**	29.0	77.2

24 OTHER INCOME

For the year ended 31 December	**2018**		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
a) Fees and commission income				
Fees and commission on loans and advances	**9.1**	**24.3**	11.3	30.1
Commission on sale of managed funds	**0.2**	**0.5**	0.2	0.4
Other fees and commission	**8.4**	**22.4**	7.7	20.4
Less: fees and commission paid	**(5.9)**	**(15.7)**	(5.1)	(13.4)
	11.8	**31.5**	14.1	37.5
b) Other operating income				
Profit on sale of available-for-sale investments (IAS39)	**-**	**-**	0.5	1.2
Gain on fair value through profit or loss investments	**0.8**	**2.1**	0.1	0.3
Dividend income	**3.4**	**9.0**	3.2	8.4
Profit on exchange dealing and transactions	**6.3**	**16.8**	5.2	13.7
Profit on trading securities and derivatives	**1.2**	**3.1**	0.4	1.2
Share of profit of associates	**5.4**	**14.4**	3.8	10.0
Other income	**1.3**	**3.4**	4.2	11.2
	18.4	**48.8**	17.3	46.0
	30.2	**80.3**	31.4	83.5

Notes to the Financial Statements for the year ended 31 December 2018

25 STAFF EXPENSES

For the year ended 31 December	2018 BD millions	2018 US$ millions	2017 BD millions	2017 US$ millions
Salaries, allowances and bonuses	**20.4**	**54.1**	17.1	45.4
Social security and gratuity	**2.0**	**5.3**	1.6	4.2
Housing and other benefits	**3.0**	**8.0**	2.2	5.9
Others	**0.6**	**1.7**	0.4	1.1
	26.0	**69.1**	21.3	56.6

26 SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

As at 31 December	2018 BD millions	2018 US$ millions	2017 BD millions	2017 US$ millions
US Dollar (long position) - unhedged	**145.4**	**386.7**	65.1	173.3
Saudi Riyal (long position) - unhedged	**23.7**	**62.9**	0.6	1.7
UAE Dirhams (long position) - unhedged	**19.0**	**50.5**	1.4	3.7
Qatari Riyal (long position) - unhedged	**0.3**	**0.7**	6.6	17.5

All of the above currencies have a fixed rate of exchange against the US Dollar.The Bank did not have any significant net open positions as at 31 December 2018 or 31 December 2017.

27 RELATED PARTIES

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

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

	Major shareholder and related entities		Directors and key personal management		Associates	
	2018	2017	**2018**	2017	**2018**	2017
As at 31 December	**BD millions**	BD millions	**BD millions**	BD millions	**BD millions**	BD millions
Loans and advances	**162.9**	251.3	**7.1**	4.2	**-**	38.9
Treasury bills, including securities	**1,397.0**	1,353.8	**-**	-	**51.6**	51.6
Customer deposits	**186.4**	229.2	**43.7**	30.1	**9.3**	6.8
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	**48.6**	92.4	**12.2**	10.7	**-**	**-**
	2018	2017	**2018**	2017	**2018**	2017
For the year ended 31 December	**BD millions**	BD millions	**BD millions**	BD millions	**BD millions**	BD millions
Loans advanced	**98.9**	116.1	**1.9**	8.5	**-**	38.8
Loans repaid	**81.5**	79.6	**4.2**	14.9	**38.8**	-
Net (decrease) / increase in overdrafts	**(105.7)**	(36.5)	**5.2**	(3.4)	**-**	-
Treasury bills, bonds and equities purchased	**916.0**	742.2	**-**	-	**-**	-
Treasury bills, bonds and equities matured/sold	**872.8**	742.2	**-**	-	**-**	-
Interest income	**74.6**	59.6	**0.6**	0.2	**0.5**	0.7
Interest expense	**1.7**	1.6	**0.6**	0.2	**-**	0.0
Share of profit of associates	**-**	-	**-**	-	**5.4**	3.8
Dividend Income	**0.4**	0.3	**-**	-	**-**	-
Directors remuneration and sitting fees	**0.2**	0.2	**0.3**	0.3	**-**	-
Short term employee benefits	**-**	-	**3.2**	3.0	**-**	-
Post employment retirement benefits	**-**	-	**0.3**	0.2	**-**	-

During the year, impairment provision of BD 4.4 million (US$ 11.7 million) [2017: BD 6.4 million (US$ 17.0 million)] have been recorded against outstanding balances with related parties.

Certain transactions were approved by the Board of Directors under Article 189(b) of the Commercial Companies Law in the financial year ended 31 December 2018 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions which have been approved by the Board.

28 ASSETS UNDER MANAGEMENT

Assets managed on behalf of customers to which the Bank does not have legal title are not included in the statement of financial position. At 31 December 2018, assets under management amounted to BD 138.1 million (US$ 367.3 million) [31 December 2017: BD 107.8 million (US$ 286.7 million)].

Notes to the Financial Statements for the year ended 31 December 2018

29 GEOGRAPHICAL DISTRIBUTION

In BD millions	Assets		Liabilities		Off balance sheet items	
As at 31 December	**2018**	2017	**2018**	2017	**2018**	2017
GCC	**3,020.5**	2,930.8	**2,536.8**	2,531.5	**2,128.9**	947.4
USA	**98.2**	125.6	**24.8**	26.8	**225.0**	226.4
Europe	**54.9**	8.1	**90.7**	39.1	**558.1**	540.8
Rest of the World	**21.9**	37.0	**67.4**	56.2	**7.2**	11.4
	3,195.5	3,101.5	**2,719.7**	2,653.6	**2,919.2**	1,726.0

Off balance sheet items include contingent liabilities, banking commitments, derivatives and forward exchange contracts.

30 DISTRIBUTION BY SECTOR

In BD millions	Assets		Liabilities		Off balance sheet items	
As at 31 December	**2018**	2017	**2018**	2017	**2018**	2017
Government	**1,550.2**	1,606.4	**388.3**	444.0	**34.8**	70.2
Manufacturing / trading	**147.6**	134.0	**186.5**	149.7	**107.6**	73.2
Banks / financial institutions	**593.2**	605.6	**523.0**	511.5	**2,716.3**	1,517.3
Construction	**85.2**	77.6	**99.3**	97.9	**38.4**	35.6
Personal	**467.7**	422.9	**1,288.1**	1,231.7	**2.3**	2.3
Others	**351.6**	255.0	**234.5**	218.8	**19.8**	27.4
	3,195.5	3,101.5	**2,719.7**	2,653.6	**2,919.2**	1,726.0

Off balance sheet items include contingent liabilities, banking commitments, derivatives and forward exchange contracts.

31 CONCENTRATION OF CREDIT RISK

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

a) By Industry

In BD millions	Government		Manufacturing/	Banks/financial				
As at 31 December 2018	**Bahrain**	**Other countries**	**trading**	**institutions**	**Construction**	**Personal**	**Others**	**Total**
Assets								
Balances at central banks	**-**	**-**	**-**	**80.3**	**-**	**-**	**-**	**80.3**
Treasury bills	**387.1**	**-**	**-**	**-**	**-**	**-**	**-**	**387.1**
Placements with banks and other financial institutions	**3.8**	**-**	**-**	**255.9**	**-**	**-**	**-**	**259.7**
Loans and advances	**114.7**	**-**	**138.0**	**103.3**	**84.2**	**466.8**	**283.1**	**1,190.1**
Investment securities - debt instruments	**1,005.8**	**20.8**	**-**	**39.3**	**-**	**-**	**11.2**	**1,077.1**
Interest receivable and other assets	**17.9**	**0.1**	**1.1**	**5.7**	**0.1**	**0.9**	**23.4**	**49.2**
Total assets	**1,529.3**	**20.9**	**139.1**	**484.5**	**84.3**	**467.7**	**317.7**	**3,043.5**
Contingent liabilities and banking commitments	**34.8**	**-**	**65.4**	**53.8**	**38.4**	**1.5**	**19.8**	**213.7**
Derivatives (replacement cost)	**2.0**	**-**	**-**	**7.9**	**-**	**0.3**	**-**	**10.2**

In BD millions	Government		Manufacturing/	Banks/financial				
As at 31 December 2017	Bahrain	Other countries	trading	institutions	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	88.2	-	-	-	88.2
Treasury bills	409.9	10.0	-	-	-	-	-	419.9
Placements with banks and other financial institutions	-	-	-	174.0	-	-	-	174.0
Loans and advances	219.4	-	123.2	186.3	76.8	422.1	199.1	1,226.9
Investment securities - debt instruments	919.4	31.7	1.9	53.4	-	-	11.5	1,017.9
Interest receivable and other assets	15.9	0.1	0.2	5.1	0.1	0.9	18.6	40.9
Total assets	1,564.6	41.8	125.3	507.0	76.9	423.0	229.2	2,967.8
Contingent liabilities and banking commitments	70.1	0.1	66.2	89.5	35.6	1.5	27.4	290.4
Derivatives (replacement cost)	0.0	-	0.1	3.7	-	0.3	-	4.2

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

The above includes certain exposures to customers / counterparties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures as at 31 December 2018:

Counterparty	**Counterparty type**	**Total exposure**
Counterparty A	Sovereign	**1,420.4**
Counterparty B	Central Bank	**176.5**
Counterparty C	Sovereign	**136.0**
Counterparty D	Sovereign	**85.5**

Notes to the Financial Statements for the year ended 31 December 2018

31 CONCENTRATION OF CREDIT RISK (Continued)

(b) By geographical regions:

In BD millions

As at 31 December 2018	**GCC**	**USA**	**Europe**	**Rest of the World**	**Total**
Assets					
Balances at central banks	**80.3**	**-**	**-**	**-**	**80.3**
Treasury bills	**387.1**	**-**	**-**	**-**	**387.1**
Placements with banks and other financial institutions	**205.1**	**2.5**	**51.5**	**0.6**	**259.7**
Loans and advances	**1,099.0**	**83.7**	**-**	**7.4**	**1,190.1**
Investment securities	**1,053.9**	**9.4**	**-**	**13.8**	**1,077.1**
Interest receivable and other assets	**43.3**	**2.6**	**3.2**	**0.1**	**49.2**
Total assets	**2,868.7**	**98.2**	**54.7**	**21.9**	**3,043.5**
Contingent liabilities and banking commitments	**192.4**	**0.1**	**16.2**	**5.0**	**213.7**
Derivatives (replacement cost)	**5.4**	**0.9**	**3.9**	**-**	**10.2**

In BD millions

As at 31 December 2017	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	88.2	-	-	-	88.2
Treasury bills	419.9	-	-	-	419.9
Placements with banks and other financial institutions	163.7	3.9	5.1	1.3	174.0
Loans and advances	1,117.0	95.0	-	14.9	1,226.9
Investment securities	972.7	24.5	-	20.7	1,017.9
Interest receivable and other assets	35.8	2.2	2.8	0.1	40.9
Total assets	2,797.3	125.6	7.9	37.0	2,967.8
Contingent liabilities and banking commitments	264.2	0.1	22.9	3.2	290.4
Derivatives (replacement cost)	1.6	0.4	2.2	-	4.2

Notes to the Financial Statements for the year ended 31 December 2018

32 INTEREST RATE RISK

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

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

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

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

In BD millions **As at 31 December 2018**	**Effective interest rate %**	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**	**Rate insensitive**	**Total**
Assets								
Cash and balances at central banks	-	-	-	-	-	-	107.3	107.3
Treasury bills	3.6%	172.0	103.4	111.7	-	-	-	387.1
Placements with banks and other financial institutions	2.5%	244.5	-	-	-	-	15.2	259.7
Loans and advances	4.4%	364.9	61.4	130.6	510.4	122.8	-	1,190.1
Investment securities	4.8%	1.9	4.3	194.5	625.9	250.5	55.1	1,132.2
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	102.5	102.5
Property and equipment	-	-	-	-	-	-	16.6	16.6
Total assets		783.3	169.1	436.8	1,136.3	373.3	296.7	3,195.5
Liabilities and equity								
Due to banks and other financial institutions	2.2%	350.1	-	0.8	-	-	30.5	381.4
Borrowings under repurchase agreements	2.4%	103.9	-	-	-	-	-	103.9
Customer deposits	1.3%	786.0	165.0	263.8	47.9	-	927.9	2,190.6
Interest payable and other liabilities	-	-	-	-	-	-	43.8	43.8
Equity	-	-	-	-	-	-	475.8	475.8
Total liabilities and equity		1,240.0	165.0	264.6	47.9	-	1,478.0	3,195.5
On-balance sheet interest rate sensitivity gap		(456.7)	4.1	172.2	1,088.4	373.3	(1,181.3)	-
Off-balance sheet interest rate gap		630.2	-	(6.3)	(408.1)	(215.8)	-	-
Cumulative interest rate sensitivity gap		173.5	177.6	343.5	1,023.8	1,181.3	-	-

Notes to the Financial Statements for the year ended 31 December 2018

32 INTEREST RATE RISK (Continued)

In BD millions As at 31 December 2017	*Effective interest rate %*	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
Assets								
Cash and balances at central banks	-	-	-	-	-	-	107.0	107.0
Treasury bills	*3.0%*	134.4	145.8	139.7	-	-	-	419.9
Placements with banks and other financial institutions	*1.5%*	158.9	-	-	-	-	15.1	174.0
Loans and advances	*3.8%*	529.8	31.6	78.6	492.1	94.7	-	1,226.8
Investment securities	*4.4%*	47.5	-	55.4	617.0	298.0	49.4	1,067.3
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	93.4	93.4
Property and equipment	-	-	-	-	-	-	13.1	13.1
Total assets		870.6	177.4	273.7	1,109.1	392.7	278.0	3,101.5
Liabilities and equity								
Due to banks and other financial institutions	*1.7%*	329.9	-	-	-	-	54.1	384.0
Borrowings under repurchase agreements	*1.8%*	67.8	-	-	-	-	-	67.8
Customer deposits	*1.1%*	695.2	167.2	269.4	48.4	-	985.0	2,165.2
Interest payable and other liabilities	-	-	-	-	-	-	36.6	36.6
Equity	-	-	-	-	-	-	447.9	447.9
Total liabilities and equity		1,092.9	167.2	269.4	48.4	-	1,523.6	3,101.5
On-balance sheet interest rate sensitivity gap		(222.3)	10.2	4.3	1,060.7	392.7	(1,245.6)	-
Off-balance sheet interest rate gap		651.3	-	-	(378.1)	(273.2)	-	-
Cumulative interest rate sensitivity gap		429.0	439.2	443.5	1,126.1	1,245.6	0.0	-

33. MARKET RISK

a) The Bank uses the standardised method for allocating market risk capital.

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

Risk type In BD millions	**2018**	2017
Interest rate risk	**4.0**	1.3
Foreign exchange risk	**-**	-
Total minimum capital required for market risk	**4.0**	1.3
Multiplier	**12.5**	12.5
Market risk weighted exposure under the standardised method	**50.2**	16.1

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

			2017	
In BD millions	**200 bps parallel increase**	**200 bps parallel decrease**	200 bps parallel increase	200 bps parallel decrease
At 31 December	**5.6**	**(5.6)**	10.0	(10.0)
Average for the year	**6.2**	**(6.2)**	10.5	(10.5)
Minimum for the year	**3.6**	**(3.6)**	8.6	(8.6)
Maximum for the year	**10.4**	**(10.4)**	12.2	(12.2)

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

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

Notes to the Financial Statements for the year ended 31 December 2018

34 SEGMENT INFORMATION

For management purposes, the Bank is organised into the following main strategic business units (SBUs) - Retail Commercial and SMEs, Corporate Institutional and Investment Banking, Overseas Branches and Treasury Capital Markets and Wealth Management. These SBUs are the basis on which the Bank reports its operating segment information.

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

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

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

In BD millions	Retail, Commercial & SMEs		Corporate, Institutional & Investment Banking		Overseas Branches		Treasury, Capital Markets & Wealth Management		Total	
For the year ended 31 December	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Interest income	**28.3**	25.0	**26.1**	16.9	**2.4**	1.8	**70.0**	58.4	**126.8**	102.1
Interest expense	**(14.8)**	(10.6)	**(12.9)**	(10.8)	**(0.2)**	(0.3)	**(11.7)**	(7.3)	**(39.6)**	(29.0)
Inter-segment interest income/(expense)	**25.7**	16.8	**4.7**	4.9	**0.2**	-	**(30.6)**	(21.7)	**-**	-
Net interest income	**39.2**	31.2	**17.9**	11.0	**2.4**	1.5	**27.7**	29.4	**87.2**	73.1
Other income	**8.3**	11.5	**2.8**	5.5	**1.2**	1.2	**17.9**	13.2	**30.2**	31.4
Operating income	**47.5**	42.7	**20.7**	16.5	**3.6**	2.7	**45.6**	42.6	**117.4**	104.5
Result	**24.8**	24.6	**7.6**	1.2	**0.2**	(0.6)	**41.0**	38.6	**73.6**	63.8
Unallocated corporate expenses									**(3.6)**	(2.7)
Profit for the year									**70.0**	61.0
Other information										
As at 31 December										
Segment assets	**615.5**	544.5	**649.1**	731.0	**67.0**	69.5	**1,863.9**	1,756.5	**3,195.5**	3,101.5
Segment liabilities & Equity	**1,386.3**	1,406.7	**831.3**	903.0	**38.1**	40.0	**939.8**	751.8	**3,195.5**	3,101.5
For the year ended 31 December										
Depreciation for the year	**0.7**	0.5	**0.3**	0.3	**0.3**	0.4	**-**	-	**1.3**	1.2
Provision for impaired assets	**1.4**	0.9	**5.1**	9.5	**(0.8)**	0.1	**(0.2)**	-	**5.6**	10.5

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

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

Notes to the Financial Statements for the year ended 31 December 2018

35. MATURITY PROFILE AND LIQUIDITY RISK

a) **MATURITY PROFILE**

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

In BD millions **As at 31 December 2018**	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**3 to 5 years**	**5 to 10 years**	**10 to 20 years**	**Over 20 years**	**Total**
Assets									
Cash and balances at central banks	**107.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**107.3**
Treasury bills	**172.0**	**103.4**	**111.7**	**-**	**-**	**-**	**-**	**-**	**387.1**
Placements with banks and other financial	**259.7**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**259.7**
Loans and advances	**267.8**	**57.9**	**152.3**	**284.7**	**272.1**	**129.2**	**23.7**	**2.4**	**1,190.1**
Investment securities	**1.8**	**4.3**	**194.4**	**493.4**	**206.9**	**176.3**	**-**	**55.1**	**1,132.2**
Investment in associates, Interest receivable, other assets and property & equipment	**5.7**	**0.2**	**2.3**	**12.9**	**4.6**	**3.5**	**-**	**89.9**	**119.1**
Total assets	**814.3**	**165.8**	**460.7**	**791.0**	**483.6**	**309.0**	**23.7**	**147.4**	**3,195.5**
Liabilities and equity									
Due to banks and other financial institutions	**380.6**	**-**	**0.8**	**-**	**-**	**-**	**-**	**-**	**381.4**
Borrowings under repurchase agreements	**103.9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**103.9**
Customer deposits	**1,713.0**	**165.3**	**263.9**	**48.4**	**-**	**-**	**-**	**-**	**2,190.6**
Interest payable & other liabilities	**25.1**	**2.3**	**1.3**	**15.1**	**-**	**-**	**-**	**-**	**43.8**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**475.8**	**475.8**
Total liabilities and equity	**2,222.6**	**167.6**	**266.0**	**63.5**	**-**	**-**	**-**	**475.8**	**3,195.5**

In BD millions As at 31 December 2017	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	107.0	-	-	-	-	-	-	-	107.0
Treasury bills	134.4	145.8	139.7	-	-	-	-	-	419.9
Placements with banks and other financial	174.0	-	-	-	-	-	-	-	174.0
Loans and advances	351.7	75.2	110.9	285.5	273.8	99.5	28.7	1.6	1,226.9
Investment securities	39.8	1.8	55.4	300.5	322.4	253.0	13.2	81.2	1,067.3
Investment in associates, Interest receivable, other assets and property & equipment	4.2	0.2	0.6	7.8	5.9	5.0	0.2	82.6	106.5
Total assets	811.1	223.0	306.6	593.8	602.1	357.5	42.1	165.4	3,101.5
Liabilities and equity									
Due to banks and other financial institutions	384.0	-	-	-	-	-	-	-	384.0
Borrowings under repurchase agreements	67.8	-	-	-	-	-	-	-	67.8
Customer deposits	1,680.2	167.2	269.4	48.4	-	-	-	-	2,165.2
Interest payable & other liabilities	20.5	13.8	0.7	1.6	-	-	-	-	36.6
Equity	-	-	-	-	-	-	-	447.9	447.9
Total liabilities and equity	2,152.5	181.0	270.1	50.0	-	-	-	447.9	3,101.5

b) **LIQUIDITY RISK**

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

In BD millions **As 31 December 2018**	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Non derivative liabilities							
Due to banks and other financial institutions	**381.4**	**382.0**	**380.9**	**-**	**1.1**	**-**	**-**
Borrowings under repurchase agreements	**103.9**	**-**	**-**	**-**	**-**	**-**	**-**
Customer deposits	**2,190.6**	**2,213.5**	**1,717.3**	**168.9**	**273.8**	**53.5**	**-**
Total non derivative liabilities	**2,675.9**	**2,595.5**	**2,098.2**	**168.9**	**274.9**	**53.5**	**-**
Derivative liabilities							
Trading: outflow	**-**	**2,075.5**	**878.4**	**483.0**	**704.3**	**9.9**	**-**
Trading: inflow	**5.4**	**2,080.4**	**879.7**	**485.0**	**705.7**	**10.0**	**-**
Total derivative liabilities	**5.4**	**4,155.9**	**1,758.1**	**968.0**	**1,410.0**	**19.9**	**-**
Banking commitments	**-**	**-**	**(18.1)**		**-**	**-**	**18.1**
Financial guarantees	**-**	**(32.0)**	**(7.9)**	**(0.2)**	**(0.3)**	**(23.6)**	**-**

Notes to the Financial Statements for the year ended 31 December 2018

b) **LIQUIDITY RISK (Continued)**

In BD millions As 31 December 2017	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to banks and other financial institutions	384.1	385.6	385.6	-	-	-	-
Borrowings under repurchase agreements	67.8	68.0	68.0	-	-	-	-
Customer deposits	2,165.2	2,174.7	1,682.5	162.6	276.2	53.5	-
Total non derivative liabilities	2,617.1	2,628.3	2,136.1	162.6	276.2	53.5	-
Derivative liabilities							
Trading: outflow	-	782.3	533.8	183.1	65.3	0.1	-
Trading: inflow	0.9	783.4	534.3	183.3	65.8	0.1	-
Total derivative liabilities	0.9	1,565.7	1,068.1	366.4	131.1	0.2	-
Banking commitments	-	-	(82.9)	-	-	-	82.9
Financial guarantees	-	(47.6)	(6.9)	(0.3)	(0.5)	(39.9)	-

36 RETIREMENT BENEFIT COSTS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme in Bahrain and its overseas branches are recognised as an expense in the statement of profit or loss. The Bank's contribution for 2018 amounted to BD 1.1 million (US$ 2.9million) [2017: BD 0.9 million (US$ 2.4 million)].

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

Provision for leaving indemnities

Movements during the year	**2018** BD millions	**2018** US$ millions	2017 BD millions	2017 US$ millions
At 1 January	**2.3**	**6.0**	3.1	8.4
Charge for the year	**0.9**	**2.4**	0.6	1.6
Paid during the year	**(0.6)**	**(1.6)**	(1.4)	(3.8)
At 31 December	**2.6**	**6.8**	2.3	6.2

The Bank has a voluntary staff savings scheme for eligible employees. The employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis to the Scheme. The Scheme is managed and administrated by a board of trustees who are the employees of the Bank. The Bank's contribution to the Scheme for 2018 amounted to BD 1.0 million (US$ 2.7 million) [2017: BD 0.8 million (US$ 2.1 million)]. As at 31 December 2018, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the Scheme, the net balance of the Scheme, amounted to BD 10.3 million (US$ 27.4 million) [31 December 2017: BD 10.0 million (US$ 26.6 million)].

37 LEGAL CLAIMS

As at 31 December 2018, legal claims pending against the Bank aggregated to BD 1.4 million (US$ 3.7 million) [31 December 2017: BD 1.2 million (US$ 3.3 million)]. Based on the opinion of the Bank's legal advisors about final judgement on these claims, adequate provision as assessed by management is maintained.

38 EARNINGS AND DIVIDEND PER SHARE

	2018 BD millions	**2018** US$ millions	2017 BD millions	2017 US$ millions
Profit for the year	**70.0**	**186.1**	61.0	162.3
Dividend proposed at 25% (2017: 25 %)	**35.1**	**93.4**	31.9	84.8
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January 2018	**1,275.4**	**1,275.4**	1,275.4	1,275.4
Effect of bonus shares issued during 2018 for 2017	**127.5**	**127.5**	127.5	127.5
Less unallocated employee shares	**(15.0)**	**(15.0)**	(15.7)	(15.7)
Weighted average number of ordinary shares (millions) as at 31 December	**1,387.9**	**1,387.9**	1,387.2	1,387.2
Earnings per share	**50 fils**	**13 cents**	44 fils	12 cents
Dividend per share	**25 fils**	**7 cents**	23 fils	6 cents

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

Notes to the Financial Statements for the year ended 31 December 2018

39 ACCOUNTING CLASSIFICATION

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

In BD millions **As at 31 December 2018**	**Fair value through profit or loss**	**Amostised cost**	**Fair value through other comprehensive income**	**Total carrying amount**
Cash and balances at central banks	**-**	**107.3**	**-**	**107.3**
Treasury bills	**-**	**387.1**	**-**	**387.1**
Placements with banks and other financial institutions	**-**	**259.7**	**-**	**259.7**
Loans and advances	**-**	**1,190.1**	**-**	**1,190.1**
Investment securities	**0.4**	**775.5**	**356.3**	**1,132.2**
Interest receivable & other assets	**-**	**119.1**	**-**	**119.1**
Total assets	**0.4**	**2,838.8**	**356.3**	**3,195.5**
Due to banks and other financial institutions	**-**	**381.4**	**-**	**381.4**
Borrowings under repurchase agreements	**-**	**103.9**	**-**	**103.9**
Customer deposits	**-**	**2,190.6**	**-**	**2,190.6**
Interest payable & other liabilities	**-**	**43.8**	**-**	**43.8**
Total liabilities	**-**	**2,719.7**	**-**	**2,719.7**

In BD millions As at 31 December 2017	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale	Others at amortised cost	Total carrying amount
Cash and balances at central banks	-	107.0	-	-	107.0
Treasury bills	-	419.9	-	-	419.9
Placements with banks and other financial institutions	-	174.0	-	-	174.0
Loans and advances	-	1,226.9	-	-	1,226.9
Investment securities	0.2	-	1,067.1	-	1,067.3
Interest receivable & other assets	-	41.8	-	-	41.8
Total assets	0.2	1,969.6	1,067.1	-	3,036.9
	-	-	-	-	-
Due to banks and other financial institutions	-	-	-	384.0	384.0
Borrowings under repurchase agreements	-	-	-	67.8	67.8
Customer deposits	-	-	-	2,165.2	2,165.2
Interest payable & other liabilities	-	-	-	27.2	27.2
Total liabilities	-	-	-	2,644.3	2,644.3

b) Fair value hierarchy

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

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

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

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

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

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

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

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

Notes to the Financial Statements for the year ended 31 December 2018

39 b) Fair value hierarchy (Continued)

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

In BD millions		**2018**				2017		
At 31 December	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Fair value through profit or loss:								
Equity instruments/Managed funds	**-**	**0.4**	**-**	**0.4**	-	0.2	-	0.2
Fair value through other comprehensive income/Available-for-sale:								
Debt instruments	**301.6**	**-**	**-**	**301.6**	332.5	685.4	-	1,017.9
Equity instruments	**43.6**	**-**	**11.1**	**54.7**	38.3	-	10.9	49.2
Derivative financial assets	**-**	**10.2**	**-**	**10.2**	-	4.2	-	4.2
Total	**345.2**	**10.6**	**11.1**	**366.9**	370.8	689.8	10.9	1,071.5
Derivative financial liabilities	**-**	**0.7**	**-**	**0.7**	-	1.1	-	1.1

The portfolio of debt instruments valued under the level 2 valuation method at 31 December 2017 amounting to BD 685.4 million has been reclassified during the year. The Bank reclassified the portfolio as at 1 July 2018 from the fair value through other comprehensive income (available-for-sale under IAS39) category to the amortised cost category to more accurately reflect the Bank's new strategic intention for the portfolio. The Bank intends to collect the contractual cash flows which represent solely the payment of principal and interest. At the time of reclassification the portfolio had a fair value of BD 729.8 million. The carrying amount of the portfolio as at 31 December 2018 was BD 775.5 million, with a fair value of BD 778.0 million. The Bank would have recognise a positive fair value of BD 2.5 million in other comprehensive income if the portfolio was not reclassified.

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

	Investment securities	
In BD millions	**2018**	2017
At 1 January	**10.9**	10.3
Total gains in other comprehensive income	**0.2**	0.6
At 31 December	**11.1**	10.9

Total gain for the year included in the statement of profit or loss for assets/liabilities held at 31 December 2018 is nil (2017: nil)

Level 3 comprises unquoted equity investments classified as fair value through other comprehensive income (2017: available-for-sale) which are measured at their estimated fair value based on the latest financial information by the investee. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category financial assets is assessed as not significant to the other comprehensive income and total equity.

40 AVERAGE BALANCES

The following are average daily balances for the year :	**2018**		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Total assets	**3,037.8**	**8,079.3**	3,007.9	7,999.8
Total liabilities	**2,575.2**	**6,848.9**	2,582.0	6,866.9
Total equity	**462.6**	**1,230.4**	425.9	1,132.8
Contingent liabilities and undrawn loan commitments	**211.5**	**562.4**	243.9	648.7

Notes to the Financial Statements for the year ended 31 December 2018

41 CAPITAL ADEQUACY

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

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

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

As at 31 December	**2018**		2017	
	BD millions	**US$ millions**	BD millions	US$ millions
Common equity (CET1)	**461.3**	**1,226.9**	434.1	1,154.5
Additional tier 1	**-**	**-**	-	-
Total common equity tier 1 (CET)	**461.3**	**1,226.9**	434.1	1,154.4
Tier 2	**13.6**	**36.2**	12.4	33.2
Total capital base	**474.9**	**1,263.0**	446.5	1,187.6
Risk weighted exposure:				
Credit risk	**1,163.8**	**3,095.3**	1,039.9	2,765.5
Market risk	**50.2**	**133.5**	16.1	42.9
Operational risk	**192.5**	**512.0**	174.8	465.1
Total risk weighted exposure	**1,406.5**	**3,740.8**	1,230.8	3,273.5
CET 1 ratio	**32.8%**		35.3%	
Total capital adequacy ratio	**33.8%**		36.3%	

42 DEPOSIT PROTECTION SCHEME

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

43 COMPARATIVES

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

ANNEXURE 2

Audited financial statements for the year ended 31 December 2017

National Bank of Bahrain BSC

Financial Statements - 31 December 2017

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CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

Report on the audit of the financial statements

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

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

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

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

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

Description

We focused on this area because:

- of the significance of loans and advances (representing 40% of total assets) and the related estimation uncertainty to the financial statements;
- the Bank makes complex and subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment;
- large loans that are classified as non-performing are assessed individually by management for specific impairment based on knowledge of each individual borrower; and

How the matter was addressed in our audit

We understood and tested key controls and focused on:

- the credit rating, monitoring process and assessment of the risk rating;
- past due ageing of the Bank's loans;
- the identification of impairment events;
- the governance controls over the impairment processes, including the continuous re-assessment by management of impairment models;
- the transfer of data between underlying source systems and the impairment models that the Bank operates; and
- the review and approval process that management has in place for the outputs of the Bank's impairment models.

In addition to testing the key controls, we have also performed the following procedures:

Specific impairment provision:
Our procedures included the following where specific impairment is calculated for individual loans:

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

- other homogenous loans are grouped together for impairment assessment on a collective basis.

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

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

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

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

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

Description	How the matter was addressed in our audit
We focused on this area because: ▪ of the significance of investment securities (representing 34% of total assets) to the financial statements; ▪ of the total investment securities, a significant amount (representing 72% of total investment securities) comprise unquoted debt and equity securities at fair value, the measurement of which requires use of estimates and judgements; and	We understood and tested key controls and focused on: • documenting and assessing the processes in place to record investment transactions and to value the quoted investment portfolio; • agreeing the valuation of the quoted equity and debt securities to externally quoted prices; • for unquoted equity securities, we challenged the appropriateness of the valuation methodology selected and compared key underlying financial data inputs to external sources, investee company financial statements and management information as applicable; • for unquoted debt securities, we tested the valuation by evaluating the appropriateness of the valuation technique used and the inputs that are directly observable from market data;

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

• the Bank makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	For impairment of debt securities, we: • evaluated individual debt security for any signs of significant financial difficulty of the issuer; • assessed if there has been a default or past due event; • assessed individual debt security for a significant drop in external credit rating; and • assessed if there had been a significant drop in fair value. For impairment of available-for-sale equity securities, we: • examined whether management has identified all investments that have experienced a decline in fair value below cost; and • evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolonged decline in fair value below cost has led to recognition of impairment. We assessed the adequacy of the Bank's disclosure in relation to impairment of investment securities by reference to the requirements of relevant accounting standards.

Other information

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

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

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

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

Responsibilities of the board of directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other regulatory requirements

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

a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith;
b) the financial information contained in the board of directors report is consistent with the financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

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

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KPMG Fakhro
Partner registration number 83
29 January 2018

National Bank of Bahrain BSC

Statement of Financial Position

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

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

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Essam Abdulla Fakhro
Deputy Chairman

Jean Christophe Durand
Chief Executive Officer

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

National Bank of Bahrain BSC

Statement of Profit or Loss

For the year ended 31 December		2017		2016	
	Note	**BD millions**	**US$ millions**	BD millions	US$ millions
Interest income	23	**102.09**	**271.52**	88.14	234.41
Interest expense	23	**(29.02)**	**(77.19)**	(22.15)	(58.90)
Net interest income		**73.07**	**194.33**	65.99	175.51
Other income	24	**31.40**	**83.51**	30.88	82.14
Total operating income		**104.47**	**277.84**	96.87	257.65
Staff expenses	25	**21.30**	**56.65**	23.90	63.57
Other expenses		**11.69**	**31.09**	10.19	27.13
Total operating expenses		**32.99**	**87.74**	34.09	90.70
Profit before provisions		**71.48**	**190.10**	62.78	166.95
Impairment provisions on loans and advances	7	**(10.40)**	**(27.66)**	(2.08)	(5.53)
Impairment provisions on investments		**(0.07)**	**(0.19)**	(2.46)	(6.54)
Profit for the year		**61.01**	**162.25**	58.24	154.88
Basic and diluted earnings per share	38	**48.4 fils**	**13 cents**	46.3 fils	12 cents

Farouk Yousuf Khalil Almoayyed
Chairman

Dr. Essam Abdulla Fakhro
Deputy Chairman

Jean Christophe Durand
Chief Executive Officer

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

National Bank of Bahrain BSC

Statement of Comprehensive Income

For the year ended 31 December	2017		2016	
	BD millions	**US$ millions**	BD millions	US$ millions
Profit for the year	**61.01**	**162.25**	58.24	154.88
Other comprehensive income:				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation movement	**-**	**-**	(0.01)	(0.03)
Fair value reserve (available-for-sale securities):				
Net change in fair value	**1.11**	**2.95**	19.53	51.95
Net amount transferred to profit or loss	**(0.29)**	**(0.77)**	(1.89)	(5.03)
Share of other comprehensive income of associates	**0.03**	**0.08**	-	-
Total other comprehensive income for the year	**0.85**	**2.26**	17.63	46.89
Total comprehensive income for the year	**61.86**	**164.51**	75.87	201.77

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

National Bank of Bahrain BSC

Statement of Changes in Equity

For the year ended 31 December 2017

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

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

For the year ended 31 December 2016

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

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

National Bank of Bahrain BSC

Statement of Cash Flows

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

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

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

1. REPORTING ENTITY

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

ii) New standards, amendments and interpretations issued but not yet effective:
The following standards and interpretations have been issued and are expected to be relevant to the Bank in future periods, with effective dates on or after 1 January 2018.

a) IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.
IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

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

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

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

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

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

(a.1) Classification and measurement

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

Based on the Bank's assessment, the new IFRS 9 classification requirements is expected to have a material impact on its accounting for loans, investments in debt securities and investments in equity securities as follows:
(a.1) At 31 December 2017, the Bank had equity investments classified as available-for-sale with a fair value of BD 49,142 thousand (USD 130,698 thousand). Under IFRS 9, the Bank has designated these investments as measured at FVTOCI. Due to this reclassification, an increase of BD 14,234 thousand (USD 37,856 thousand) is estimated in the retained earnings along with a corresponding decrease in fair value reserve due to reclassification of impairment on equity investments measured at fair value through other comprehensive income to the reserves.

(a.2) Expected credit losses

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

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

except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

(a.3) Financial liabilities
Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

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

(a.4) Hedge accounting
IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

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

(a.5) Disclosure
IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

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

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

c) Classification and Measurement of Shared-based Payment Transactions (Amendments to IFRS 2)
Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payment.
The amendments cover three accounting areas:
• measurement of cash-settled share-based payments;
• classification of share-based payments settled net of tax withholdings; and
• accounting for a modification of a share-based payment from cash-settled to equity-settled.

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

The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method. Therefore, in measuring the liability:
• market and non-vesting conditions are taken into account in measuring its fair value; and

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

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

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

d) IFRS 16 Leases

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

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

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

iii) Early adoption of standards

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

c. Foreign currencies

Foreign currency transactions:

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

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

Foreign operations:

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

d. Use of estimates and management judgement

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

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

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

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

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

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

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

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

e. Accounting for income and expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

xv) De-recognition of financial assets and liabilities
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:
- The rights to receive cash flows from the asset have expired

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

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

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

- If the expected restructuring will not result in derecognition of existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

g. Impairment of non-financial assets

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

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

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

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

h. Investment in associates

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

i. Property and equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT

The Bank is exposed to the following types of risks:
- credit risk
- liquidity risk
- market risk
- operational risk

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

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

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

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

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

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

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

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

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

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

Liquidity Risk

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

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

Market Risk

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

Operational Risk

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

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

Capital Management

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

The Central Bank of Bahrain's (CBB) Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

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

4 TREASURY BILLS

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

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

5 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

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

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

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

6 TRADING SECURITIES

As at 31 December	2017		2016	
	BD '000	US$ '000	BD '000	US$ '000
Equity securities	-	-	349	928
Total	-	-	349	928

7 LOANS AND ADVANCES

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

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

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

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

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

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

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

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

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

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

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

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

f) Exposure to credit risk

As at 31 December	2017		2016	
	BD '000	US$ '000	BD '000	US$ '000
Total carrying amount	**1,226,850**	**3,262,899**	1,031,926	2,744,484
1. Individually impaired				
Substandard	**77,747**	**206,774**	58,130	154,601
Doubtful	**1,916**	**5,096**	1,869	4,971
Loss	**8,096**	**21,532**	23,578	62,707
Individually impaired net of interest in suspense	**87,759**	**233,402**	83,577	222,279
Specific provision for impairment	**(30,261)**	**(80,481)**	(36,509)	(97,098)
Individually impaired carrying amount	**57,498**	**152,921**	47,068	125,181
2. Past due below 90 days but not impaired				
Gross amount	**9,874**	**26,262**	3,776	10,043
Collective impairment provision	**(104)**	**(277)**	(48)	(128)
Past due but not impaired carrying amount	**9,770**	**25,985**	3,728	9,915
3. Neither past due nor impaired by internal rating				
Rated 1	**55,884**	**148,628**	47,352	125,936
Rated 2	**4,884**	**12,990**	23,900	63,564
Rated 3	**81,916**	**217,862**	64,624	171,872
Rated 4+ to 4-	**107,215**	**285,146**	136,248	362,362
Rated 5+ to 5-	**199,222**	**529,846**	116,703	310,380
Rated 6+ to 6-	**129,742**	**345,058**	215,431	572,955
Rated 7	**171,902**	**457,186**	13,578	36,112
Unrated*	**421,179**	**1,120,155**	376,282	1,000,750
Gross amount	**1,171,944**	**3,116,871**	994,118	2,643,931
Collective impairment provision	**(12,362)**	**(32,878)**	(12,988)	(34,543)
Carrying amount of neither past due nor impaired	**1,159,582**	**3,083,993**	981,130	2,609,388
Total carrying amount	**1,226,850**	**3,262,899**	1,031,926	2,744,484

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

g) Impairment provisions on loans and advances

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

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

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

8 INVESTMENT SECURITIES

Investment securities comprise the following:

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

A) Available-for-sale investments

i. Breakdown of quoted and unquoted investments

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

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

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

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

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

The ratings given below are by established rating agencies.

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

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

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

B) Investments designated at fair value through profit or loss
Fair value through profit or loss investment securities comprise investments as under:

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

9 INVESTMENT IN ASSOCIATES

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

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

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

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

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

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

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

10 INTEREST RECEIVABLE AND OTHER ASSETS

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

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

11 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS
Due to banks and other financial institutions consists of short-term borrowings from banks and other financial institutions.

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

12 BORROWINGS UNDER REPURCHASE AGREEMENTS

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

13 CUSTOMER DEPOSITS

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

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

14 INTEREST PAYABLE AND OTHER LIABILITIES

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

15 CASH AND CASH EQUIVALENTS

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

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

16 CONTINGENT LIABILITIES AND BANKING COMMITMENTS

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

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

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

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

17 DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

18 CAPITAL COMMITMENTS

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

19 PROPERTY & EQUIPMENT

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

The depreciation charge for 2017 amounted to BD 1.76 million (US$ 4.68 million) [2016: BD 1.65 million (US$ 4.39 million)].
The above includes capital work in progress at cost. When the asset is ready to use, the same is capitalised and depreciated in accordance with the Bank's policies.

20 SHARE CAPITAL

	2017		2016	
	BD '000	US$ '000	BD '000	US$ '000
Authorised share capital				
1,500,000,000 (2015: 1,500,000,000) ordinary shares of 100 fils each	150,000	398,936	150,000	398,936
Issued and fully paid share capital				
At 1 January 1,159,498,560 ordinary shares of 100 fils each (at 1 Jan 2016: 1,054,089,600 shares of 100 fils each)	115,950	308,377	105,409	280,343
Bonus issue (one for ten shares held) *	11,594	30,835	10,541	28,034
At 31 December 1,275,448,416 ordinary shares of 100 fils each (at 31 Dec 2016: 1,159,498,560 shares of 100 fils each) **	127,544	339,212	115,950	308,377

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

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

Employee Share Incentive Scheme

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

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

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

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

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

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

21 RESERVES

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

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

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

c) Fair value reserve

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

d) Donation and charity reserve

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

e) Share premium

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

22 APPROPRIATIONS

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

23. INTEREST INCOME / INTEREST EXPENSE

a) INTEREST INCOME

For the year ended 31 December	**2017**		2016	
	BD '000	**US$ '000**	BD '000	US$ '000
Loans and advances to non banks	**38,994**	**103,707**	34,457	91,641
Loans and advances to banks	**4,408**	**11,723**	3,403	9,051
Treasury bills	**13,619**	**36,221**	11,190	29,761
Placements with banks and other financial institutions	**1,390**	**3,697**	1,232	3,277
Investment securities	**43,342**	**115,271**	37,697	100,258
Derivative assets held for risk management	**340**	**904**	158	420
Total	**102,093**	**271,523**	88,137	234,408

b) INTEREST EXPENSE

For the year ended 31 December	**2017**		2016	
	BD '000	**US$ '000**	BD '000	US$ '000
Deposits from customers	**21,685**	**57,672**	18,688	49,702
Deposits from banks and other financial institutions	**6,065**	**16,130**	2,790	7,420
Borrowings under repurchase agreements	**530**	**1,410**	180	479
Derivative liabilities held for risk management	**744**	**1,979**	489	1,301
Total	**29,024**	**77,191**	22,147	58,902

24 OTHER INCOME

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

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

25 STAFF EXPENSES

For the year ended 31 December	2017		2016	
	BD '000	**US$ '000**	BD '000	US$ '000
Salaries, allowances and bonuses	**17,120**	**45,532**	18,300	48,670
Social security & gratuity	**1,564**	**4,158**	2,058	5,473
Housing & other benefits	**2,218**	**5,897**	3,297	8,768
Others	**401**	**1,067**	248	660
Total	**21,303**	**56,654**	23,903	63,571

26 SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

As at 31 December	2017		2016	
	BD '000	**US$ '000**	BD '000	US$ '000
US Dollar (long position) - unhedged	**65,149**	**173,269**	18,344	48,787
UAE Dirhams (long position) - unhedged	**1,398**	**3,718**	4,172	11,096
Saudi Riyal (long position) - unhedged	**637**	**1,694**	14,251	37,902
Qatari Riyal (long position) - unhedged	**6,581**	**17,503**	10,638	28,293

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

27 RELATED PARTY DISCLOSURES

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

Amounts in BD '000	**Major shareholder and related entities**		**Directors & key personal management**		**Associates**	
As at 31 December	**2017**	2016	**2017**	2016	**2017**	2016
Loans and advances	**251,295**	186,782	**4,230**	14,051	**38,941**	-
Treasury bills, bonds and equities	**1,353,797**	1,449,642	**-**	-	**51,577**	50,076
Customers' deposits	**229,162**	114,260	**30,101**	46,561	**5,936**	4,441
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	**92,395**	88,785	**10,659**	5,915	**-**	-

For the year ended 31 December	**2017**	2016	**2017**	2016	**2017**	2016
Loans advanced	**116,096**	5,513	**8,479**	18,892	**38,800**	-
Loans repaid	**79,602**	35,458	**14,937**	18,499	**-**	37,661
Net (decrease) / increase in overdrafts	**28,019**	52,419	**(3,363)**	8,768	**-**	-
Treasury bills, bonds and equities purchased	**742,229**	1,252,829	**-**	-	**-**	10,000
Treasury bills, bonds and equities matured/sold	**838,074**	1,176,932	**-**	-	**-**	-
Interest income	**59,633**	59,306	**224**	296	**749**	305
Interest expense	**1,625**	453	**247**	392	**40**	31
Share of profit of associates	**-**	-	**-**	-	**3,753**	2,985
Dividend Income	**321**	84	**-**	-	**-**	-
Directors Remuneration and sitting fees	**168**	167	**275**	313	**-**	-
Short term employee benefits	**-**	-	**3,025**	5,485	**-**	-
Post employment retirement benefits	**-**	-	**248**	651	**-**	-

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

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

28 ASSESTS UNDER ADMINISTRATION

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

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

29 GEOGRAPHICAL DISTRIBUTION

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

30 DISTRIBUTION BY SECTOR

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

31 CONCENTRATION OF CREDIT RISK

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

a) By Industry

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

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

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

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

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

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

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

(b) By geographical regions :

Amounts in BD '000 **As at 31 December 2017**	**GCC**	**USA**	**Europe**	**Rest of the World**	**Total**
Assets					
Balances at central banks	**88,233**	**-**	**-**	**-**	**88,233**
Treasury bills	**419,923**	**-**	**-**	**-**	**419,923**
Placements with banks and other financial institutions	**163,746**	**3,917**	**5,079**	**1,267**	**174,009**
Loans and advances	**1,116,968**	**94,981**	**-**	**14,901**	**1,226,850**
Investment securities	**972,644**	**24,557**	**-**	**20,707**	**1,017,908**
Interest receivable and other assets	**35,816**	**2,172**	**2,805**	**94**	**40,887**
Total assets	**2,797,330**	**125,627**	**7,884**	**36,969**	**2,967,810**
Contingent liabilities and banking commitments	**264,149**	**67**	**22,946**	**3,190**	**290,352**
Derivatives (notional)	**683,263**	**226,324**	**517,826**	**7,189**	**1,434,602**

Amounts in BD '000 As at 31 December 2016	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	89,892	-	-	-	89,892
Treasury bills	486,802	-	-	-	486,802
Placements with banks and other financial institutions	135,549	1,596	23,092	663	160,900
Loans and advances	996,457	-	14,863	20,606	1,031,926
Investment securities	1,011,967	10,598	13,461	7,320	1,043,346
Interest receivable and other assets	34,758	30	3,146	137	38,071
Total assets	2,755,425	12,224	54,562	28,726	2,850,937
Contingent liabilities and banking commitments	218,489	86	21,046	4,159	243,780
Derivatives (notional)	487,580	260,315	468,956	644	1,217,495

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

32 INTEREST RATE RISK

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

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

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

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

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

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

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

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

33. MARKET RISK

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

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

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

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

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

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

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

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

34 SEGMENT INFORMATION

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

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

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

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

Amounts in BD '000	Personal Banking		Bahrain Business Banking		Treasury & International Banking		Total	
For the year ended 31 December	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Interest income	**20,251**	20,471	**15,773**	12,073	**66,069**	55,593	**102,093**	88,137
Interest expense	**(9,925)**	(6,190)	**(11,439)**	(12,226)	**(7,661)**	(3,731)	**(29,025)**	(22,147)
Inter-segment interest income/(expense)	**14,345**	9,613	**11,728**	11,787	**(26,073)**	(21,400)	**-**	-
Net interest income	**24,671**	23,894	**16,062**	11,634	**32,335**	30,462	**73,068**	65,990
Other income	**9,641**	8,846	**3,814**	2,784	**17,943**	19,253	**31,398**	30,883
Operating income	**34,312**	32,740	**19,876**	14,418	**50,278**	49,715	**104,466**	96,873
Result	**19,878**	17,495	**1,910**	5,775	**41,944**	37,537	**63,732**	60,807
Unallocated corporate expenses							**(2,719)**	(2,572)
Profit for the year							**61,013**	58,235
Other information								
Segment assets	**447,374**	430,080	**588,602**	480,777	**2,065,567**	2,066,244	**3,101,543**	2,977,101
Segment liabilities & Equity	**1,181,144**	975,923	**1,077,621**	1,105,549	**842,778**	895,629	**3,101,543**	2,977,101
Depreciation for the year	**508**	529	**325**	325	**369**	252	**1,202**	1,106
Provision for impaired assets	**1,023**	1,713	**9,287**	(155)	**161**	2,982	**10,471**	4,540

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

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

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

While the Bank conducts its banking business primarily through its Strategic Business Units, it operates from various geographical locations:
(i) Domestic operations through its network of branches in Kingdom of Bahrain and
(ii) Overseas operations through its branches in the United Arab Emirates and Saudi Arabia.

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

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

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

35. MATURITY PROFILE AND LIQUIDITY RISK

a) **MATURITY PROFILE**

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

Amounts in BD '000

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

Amounts in BD '000

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

b) **LIQUIDITY RISK**

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

Amounts in BD '000

As 31 December 2017	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to banks and other financial institutions	384,007	385,633	385,633	-	-	-	-
Borrowings under repurchase agreements	67,829	68,032	68,032	-	-	-	-
Customers' deposits	2,165,214	2,174,728	1,682,429	162,562	276,193	53,544	-
Total non derivative liabilities	2,617,050	2,628,393	2,136,094	162,562	276,193	53,544	-
Derivative liabilities							
Trading: outflow	-	782,276	533,812	183,100	65,292	73	-
Trading: inflow	900	783,422	534,297	183,276	65,775	74	-
Total derivative liabilities	900	1,565,698	1,068,109	366,376	131,067	147	-
Banking commitments	-	-	(82,883)		-	-	82,883
Financial guarantees	-	(47,585)	(6,948)	(250)	(522)	(39,865)	-

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

b) **LIQUIDITY RISK (Continued..........)**

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

36 RETIREMENT BENEFIT COSTS

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

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

Provision for leaving indemnities

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

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

37 LEGAL CLAIMS

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

38 EARNINGS AND DIVIDEND PER SHARE

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

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

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

39 ACCOUNTING CLASSIFICATION

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

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

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

39 b) Fair value hierarchy

The Bank measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.
Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

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

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

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

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

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

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

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

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

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

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

40 AVERAGE BALANCES

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

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

41 CAPITAL ADEQUACY

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

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

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

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

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

42 DEPOSIT PROTECTION SCHEME

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

43 COMPARATIVES

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