LEADERSHIP THROUGH
CUSTOMER CENTRICITY

Annual Report 2017

بنـــك الإثـمـار
Ithmaar Bank

CONTENTS

AT A GLANCE

Ithmaar Bank B.S.C. (closed) (Ithmaar Bank, Ithmaar or Bank) is a Bahrain-based Islamic retail bank that is licensed and regulated by the Central Bank of Bahrain (CBB) and provides retail, commercial, treasury and financial institutions, and other banking services.

Ithmaar Bank is a wholly-owned subsidiary of Ithmaar Holding B.S.C. (formerly named Ithmaar Bank B.S.C.) (Ithmaar Holding or the Group), which is a Bahrain-based holding company that is licensed and regulated as a Category 1 Investment Firm by the CBB and listed on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market. Ithmaar Holding is a subsidiary of Dar Al-Maal Al-Islami Trust (DMIT).

Ithmaar Bank provides a diverse range of Sharia-compliant products and services that cater to the financing and investment needs of individuals and institutions. Ithmaar Bank also maintains a presence in overseas markets through its subsidiary, Faysal Bank Limited (Pakistan).

VISION, MISSION AND VALUES

Our Vision

A trusted leading Islamic financial institution offering a comprehensive range of financial solutions and contributing to social development.

Our Mission

To be the preferred Bank for our customers, counterparties and strategic partners by creating value through innovation and customer service.

Our Values

- Comply with Islamic Sharia principles;
- Honesty, integrity and objectivity in all our relationships;
- Market and customer focused;
- Continuous improvement, creativity, innovation and willingness to bring about changes; and
- Active role in the community.

FINANCIAL HIGHLIGHTS

	2017
Net profit [BHD 000]	6,238
Net profit attributable to shareholders [BHD 000]	1,582
Net income before provision for impairment and overseas taxation [BHD 000]	19,031
Total equity attributable to shareholders [BHD 000]	154,603
Book value per share [Fils]	15.46
Earnings per share [Fils]	1.58
Total assets [BHD 000]	3,242,419
Funds under management [restricted investment accounts] [BHD 000]	96,707
Return on average shareholders' equity	4.04%
Return on average assets	0.19%
Return on average paid in capital	6.24%
Capital adequacy ratio	13.92%
Cost to operating income ratio	78.66%

JOINT MESSAGE

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

We are pleased to announce that Ithmaar Bank, in its first full year of operations following the successful implementation of the new group structure in January 2017, reported profits throughout the period.

As a result, Ithmaar Bank concluded 2017 by reporting a net profit of BHD6.24 million for the period ended 31 December 2017. The net profit attributable to equity holders of the Bank for the period was BHD1.58 million.

The Bank's financial performance for the period ended 31 December 2017 underscores the fact that plans to turn Ithmaar Group around by significantly transforming its operations are now well underway, and are delivering stable, consistent results. These plans, which followed strategic decisions taken in 2016, included the conversion of the former Ithmaar Bank B.S.C into Ithmaar Holding B.S.C., which is licensed and regulated as a Category 1 Investment Firm by the Central Bank of Bahrain (CBB). Following the conversion, Ithmaar Bank is now a wholly-owned subsidiary of Ithmaar Holding which is listed on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market, and traded under the ticker ITHMR.

Since the full implementation of the new group structure on 2 January 2017, Ithmaar Bank focused on its core retail banking business, and the results immediately speak for themselves.

During the period, Ithmaar Bank recorded an operating income of BHD89.2 million. The Bank recorded a total income before provisions for impairment and overseas taxation for the period ended 31 December 2017, of BHD19.0 million.

The 2017 financial results also show that the Bank's total assets grew by 4.4 percent over the last nine months of the year to stand at BHD3.24 billion as at 31 December 2017, up from BHD3.11 billion as at 31 March 2017, the first reviewed financials released for Ithmaar Bank after the reorganization. Murabaha and other financing grew by 5.3 percent during the same period to stand at BHD2.08 billion as at 31 December 2017, up from BHD1.97 billion as at 31 March 2017. Equity of unrestricted investment accountholders grew by 6.5 percent during the same period to stand at BHD1.06 billion as at 31 December 2017, up from BHD1.00 billion as at 31 March 2017, and customer current accounts grew by 12.2 percent during the same period to stand at BHD676.9 million as at 31 December 2017, up from BHD603.2 million as at 31 March 2017.

The Bank's continued profitability is powerful testimony to the Bank's growing success as an Islamic retail bank, and the remarkable 2017 achievements set the stage for continuous growth. In fact, the Bank's financial performance is only a part of the remarkable 2017 story, with much of the year being spent on preparing for a better, more efficient and more customer-centric future.

In 2017, the Bank undertook several initiatives to enhance customer experience – including a major project of upgrading its core banking system and its eBanking offering, as well as upgrading its Information Technology (IT) infrastructure and systems to support business growth and improve operational efficiency. The project, which is expected to be completed by the end of the second quarter of 2018, has already brought about transformational change as employees from across the Bank work together with unprecedented levels of interaction. When completed, the upgrade will provide a strong foundation to support future business growth with the flexibility of quickly launching new products and services. The Bank also worked with international consultants to design an aggressive three-year digital strategy.

Throughout the year, the Bank also remained focused on realising its commitment to becoming one of the region's premier Islamic retail banks by growing ever closer to our customers and by playing a real and meaningful role in the community. This focus has not gone unnoticed and, in 2017, the Bank earned local, regional and international praise and recognition both for its success as an Islamic retail bank and, perhaps more importantly, for its role in, and support for, the community.

Ithmaar Bank's financial results for 2017 reflect the tremendous achievements made during the year, and are a result of the commitment, dedication and expertise of our people as well as the confidence of our customers in the Bank.

We take this opportunity, as always, to thank each one of Ithmaar Bank's employees for their truly valuable contributions as well as the members of the Board of Directors and the Sharia Supervisory Board for their continued support. We take this opportunity, also, to thank the Bank's customers, investors and all other stakeholders for their confidence and, in particular, the Central Bank of Bahrain and the Ministry of Industry, Commerce and Tourism for their continued guidance and support.

Amr Mohammed Al Faisal
Chairman

Ahmed Abdul Rahim
Chief Executive Officer

HRH Prince Amr Mohammed Al Faisal
Chairman

Ahmed Abdul Rahim
Chief Executive Officer

"In 2017, the Bank undertook several initiatives to enhance customer experience – including a major project of upgrading its core banking system and its eBanking offering, as well as upgrading its Information Technology (IT) infrastructure and systems to support business growth and improve operational efficiency."

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

Strategy and focus

Ithmaar Bank is committed to becoming one of the region's premier Islamic retail banks.

To do so, the Bank focuses on continuously enhancing its products and services, while growing closer to customers by listening to their needs and working to meet their demands and exceed their expectations.

Ithmaar Bank's customer-centric approach drives the Bank's immediate and long-term strategy.

New group structure delivers results

Following the full implementation of the new group structure in January 2017, Ithmaar Bank focused exclusively on its core retail banking business.

This clear focus has contributed to pronounced growth both at Ithmaar Bank's Islamic retail banking operations in Bahrain, and at Faysal Bank Limited (FBL), its retail banking subsidiary in Pakistan.

Economic outlook

The last decade has been punctuated by a series of broad-based economic crises and negative shocks, starting with the global financial crisis of 2008–2009, followed by the European sovereign debt crisis of 2010–2012 and the global commodity price realignments of 2014–2016. As these crises and the persistent headwinds that accompanied them subside, the world economy has strengthened, offering greater scope to reorient policy towards longer-term issues that hold back progress along the economic, social and environmental dimensions of sustainable development.

In 2017, global economic growth is estimated to have reached 3.0 per cent, a significant acceleration compared to growth of just 2.4 per cent in 2016, and the highest rate of global growth recorded since 2011. Labour market indicators continue to improve in a broad spectrum of countries, and roughly two-thirds of countries worldwide experienced stronger growth in 2017 than in the previous year. At the global level, growth is expected to remain steady at 3.0 per cent in 2018 and 2019.

World industrial production has also accelerated, in tandem with a recovery in global trade that has been predominantly driven by stronger demand in East Asia. Confidence and economic sentiment indicators have also generally strengthened, especially in developed economies. Investment conditions have improved, amid stable financial markets, strong credit growth, and a more solid macroeconomic outlook.

Bahrain

The Bahraini economy has gained momentum, with the annual pace of growth in the non-oil sector reaching 4.8% in the first nine months of 2017. The performance of the non-oil private sector also meant that overall economic growth in the Kingdom reached an annual pace of 3.6% for the first three quarters of 2017 – improving on the 3.2% pace of growth posted during 2016 as a whole and making Bahrain the fastest growing economy in the Gulf Cooperation Council (GCC) region.

The Bahrain Economic Development Board (EDB) expects this positive dynamic growth to continue into 2018 as the regional environment becomes more supportive of growth and as the diversified economy continues to expand.

In 2017, Bahrain implemented key pillars of the regulatory framework for FinTech, including the launch of a regulatory sandbox which has already accepted its first six entrants. Bahrain also launched the first dedicated FinTech hub and corporate incubator in the Middle East and Africa region in February 2018. The Bahrain FinTech Bay will collaborate closely with the Central Bank of Bahrain, notably its new, dedicated FinTech and Innovation Unit, and the Bahrain EDB.

The Gulf Cooperation Council (GCC) and MENA Region

The GCC region's economy is expected to grow near 2.5 percent in 2018. Stable energy prices will underpin this growth, with the price for Brent crude oil fluctuating in a tight range of US$ 50-60 per barrel.

Liquidity in the MENA region has always been closely associated with movement in oil prices. Low oil price environment is putting pressure on government revenues, while spending continues to be aligned with the long term vision of the regional governments. The sector remained resilient until 2015, but government decisions to draw down deposits and issue local denominated notes to fund deficits has drained out liquidity from the financial system.

"The Bank focuses on continuously enhancing its products and services, while growing closer to customers by listening to their needs and working to meet their demands and exceed their expectations."

REVIEW OF OPERATIONS CONTINUED

Pakistan

Pakistan's economic growth is on track to achieve its highest level in the last eleven years. Average headline inflation remains within the forecast range of State Bank of Pakistan, but core inflation has continued to increase. The fiscal deficit for the year 2018 is expected to fall close to last year's 2.5 percent. There has been visible improvement in export growth and remittances are marginally higher. However, largely due to a high level of imports the current account deficit remains under pressure. The exchange rate adjustment in December 2017 is expected to help ease the pressure on the external front. Meanwhile, prospects for GDP growth remain strong. Indicators suggest that the economy is well poised to achieve the target growth of 6 percent for financial year 2018. From the demand side, rising income levels of consumers are fuelling retail sales and commercial activities. Businesses, meanwhile, are in the middle of an expansionary phase, with international investors' attention boosting the level of competition and quality in the domestic market. The evidence of this can be found in sectors such as cement, steel, automobile, and electronics, where substantial capacity expansions are already underway.

In December 2017, State Bank of Pakistan eased its monetary control on the PKR/$ exchange rate amid growing pressure on foreign currency reserves. As a result, the Pakistan rupee declined to 110 as of 31 December 2017 from the earlier stable level of 104-105 (until 30 November 2017).

(Sources: United Nations, Department of Economic and Social Affairs - World Economic Situation and Prospects 2018, December 2017; State Bank of Pakistan – First Quarterly Report 2017-18).

Clear focus on core business

Ithmaar Bank's commitment to its customer-centric approach defined and helped drive the Bank's growth throughout 2017.

The Bank started the year, for example, by re-launching its popular prize-linked saving account, Thimaar, to offer customers increased chances to win while lowering the minimum deposit. The changes were made in response to specific customer requests, and underscore how closely the Bank listens to customers and how seriously its takes their feedback.

Ithmaar Bank launched in May 2017 its Sharia-compliant corporate credit card in affiliation with MasterCard. The card, which was tailored to meet the specific requirements of its corporate customers, Small and Medium Enterprises (SMEs) and other business owners, allowed customers greater control over their business payments and marked a significant step towards popularizing cashless payments.

Later in the year, Ithmaar Bank also introduced Bahrain's first ever contactless credit card with the launch of its World Credit Card with Mastercard. The World Card offers the Bank's premier customers enhanced privileges, including unlimited access to more than 900 airport lounges in more than 450 cities across more than 135 countries worldwide.

During the year, Ithmaar Bank fully completed the transition to electronic credit statements. The e-statements, which are securely delivered directly to customer email addresses, help improve privacy and reduce the risks of fraud while also helping protect the environment.

Ithmaar Bank also launched a special promotional campaign in 2017 offering customers who applied for personal financing the chance to win a prize where their alternate instalments are paid by the Bank for a full year. The Bank also renewed a joint promotion with Gulf Air that grants its cardholders discounted prices for tickets purchased on www.gulfair.com.

In 2017, Ithmaar Bank implemented an electronic queuing app (Ithmaar eQ app) to help improve the branch experience for customers by allowing them to plan branch visits in advance thereby significantly reducing, and potentially even eliminating, waiting time altogether.

The Ithmaar eQ app, a smart phone application available for free download on both the App Store for iPhones and Google Play for Androids, allows Ithmaar Bank customers to view real-time information on all branches, including how far away and how busy each is. The Ithmaar eQ app allows customers to directly book appointments or issue virtual eTickets for the nearest or most convenient branch, and notifies customers when their turn approaches. The app provides directions to each branch, as well as their specific timings.

By the end 2017, Ithmaar Bank, in line with its customer-centric strategy, began providing a pioneering new service to customers opening new accounts at the Bank, allowing them to instantly collect their debit cards. The service, initially only available at the Main Branch, is now being rolled out to the 15 other branches in the Ithmaar Bank retail network.

All these initiatives have contributed to significant growth in business across the retail branch network.

In 2017 Ithmaar Bank, as Manager of the Dilmunia Development Fund, launched a selection of development plots on the island, including "The Eastern Neighbourhood" and "High Eight".

Throughout the year, the Bank's Commercial and Financial Institutions (CFI) department focused on growing the SME portfolio, as well as on developing and strengthening the Bank's relationship with corporate and financial institution clients. The emphasis on diversification, with financing of logistics, manufacturing, automobile trading, infrastructure and social housing development sectors, contributed to the growth of the Bank's financing assets portfolio. The customer onboarding process was also further enhanced in 2017 to improve the asset risk profile. On the liabilities side, CFI steadily grew its liabilities portfolio and attracted Mudaraba deposits from financial institutions, and government and quasi-government entities. The Bank's Private Banking Team continued to build relationships with new High Net Worth Individuals (HNWI) segments.

Security certification

In April 2017, Ithmaar Bank became one of the first banks in Bahrain to be certified to the Payment Card Industry Data Security Standard (PCI-DSS) v3.2, a prestigious, internationally-celebrated payment security certification that put the Bank on par with some of the best in the world. The PCI-DSS is a data security standard for organisations that handle branded payment cards from the major card solutions. The PCI Standard is mandated by the card brands and administered by the Payment Card Industry Security Standards Council. Ithmaar Bank earned the certification after successfully completing a comprehensive audit and demonstrating compliance to one of the most stringent and most coveted security standards in the world.

Ithmaar Bank's Markets Served (Bahrain)

Financings – FYE 2017

Territory		Sector	
Bahrain	93%	Personal	76%
GCC	2%	Financial institutions	2%
Others	5%	Real estate and construction	7%
		Trade and manufacturing	7%
		Services	8%
Total	**100%**		**100%**

Customer Funds – FYE 2017

Territory		Sector	
Bahrain	91%	Personal	55%
GCC	1%	Financial institutions	3%
Others	8%	Real estate and construction	12%
		Trade and manufacturing	12%
		Services	8%
		Government related	10%
Total	**100%**		**100%**

REVIEW OF OPERATIONS CONTINUED

New strategic initiatives in progress

Core banking

Ithmaar Bank commenced the upgrade of its Flexcube core banking system from Oracle, and the project is expected to be completed towards the end of the second quarter of 2018. This upgrade will provide a strong foundation to support future business growth and flexibility with the ability to launch new products and services with ease.

eBanking

The Bank has commenced implementation of a new e-Banking system (from Veripark) and the project is expected to be completed towards the end of the second quarter of 2018. The new e-Banking system will enhance the customer experience and has advanced functionalities which will help the customer perform most of the banking activities/ transactions through the internet.

Consolidation, Budgeting & Planning

The Bank implemented a new consolidation, budgeting and planning software called "Hyperion" from Oracle in December 2017.

FAS 30 (AAOIFI equivalent to IFRS 9) project

The Bank has implemented an automated solution to calculate expected credit losses. This is to meet the new accounting and regulatory requirements.

Digital Strategy

In 2017, Ithmaar Bank brought together employees and department heads from across the Bank to work closely with the executive management team and specialized international consultants to formulate an aggressive three-year digital strategy.

The strategy, which reinforces Ithmaar Bank's customer-centric focus, aims to usher the Bank and its customers into the future, and leapfrog current trends to retain its reputation as a pioneering Islamic retail bank.

Asset Management

Following the implementation of the new group structure and the subsequent reallocation of assets, Ithmaar Bank's Asset Management department focused in 2017 on actively managing the Bank's Funds Under Management (FUM). The Asset Management department, acting as Modareb for the fund's investors, works to maximise the performance of these FUMs to achieve the greatest realization for the funds' investors. The FUMs are located in Bahrain, the United States of America and Europe.

The Bank's Asset Management department also provides outsourcing services to manage investments held by Ithmaar Holding and its subsidiary IB Capital.

Investing in our people

Ithmaar Bank has long maintained that its people are its greatest asset. Accordingly, the Bank invests heavily in continuous employee training and development.

This included in-house, on-line and overseas training programmes, all designed to align employee skills with the Bank's requirements. Ultimately, this feeds into the Bank's customer-centric approach by ensuring that employees, at all levels, are as effective and as efficient as possible.

In-house training courses in 2017 included a Trade-Based Anti–Money Laundering session for employees of the Risk Management, Banking Operations, Compliance and Anti Money Laundering (AML), Commercial and Financial Institutions (CFI) departments; a Retail Leadership and Management programme for Branches Network employees and Retail Banking team leaders; an Information Security training session for all the Bank's employees, support staff, office assistants and security guards; and a Common Reporting Standards Workshop for employees of the Compliance and AML, Risk Management, IT, Banking Operations, Financial Control, Internal Audit, CFI, Private Banking and Legal departments.

In 2017, as required by the CBB, Ithmaar Bank conducted an annual AML Refresher Course for employees of the Branches Network, Business Development and Retail Support departments. A comprehensive Business Continuity Plan and Information Security awareness programme was also arranged on a quarterly basis for all new joiners, including employees, trainees, temporary employees and outsourced personnel.

In line with its customer-centric approach, Ithmaar Bank hosted training programmes focusing on how to best handle customer complaints. These were attended by customer-facing employees from various departments, including the Branches Network, Remedial Management and Collections, Retail Banking Support, Private Banking and the CFI departments. The Bank also arranged Corporate Service Excellence and Corporate Credit Card training programmes for Branches Network employees.

Recognizing the importance of IT security, Ithmaar Bank hosted its annual Information Security awareness training sessions for all employees in all department, including the senior management, to ensure that the entire workforce is updated with the latest security issues.

In preparation for the anticipated introduction of Value Added Tax (VAT) in Bahrain, Ithmaar Bank arranged VAT awareness sessions for senior management as well as the heads of various departments and employees from the Legal, IT, Branch Network, Risk Management and Financial Control departments.

In 2017, Ithmaar Bank also hosted a training session entitled "Towards Process Success" for all branch employees. The session highlighted the principles of process re-engineering and its importance in today's challenging environment as well as the significant contribution that employees can make in achieving process excellence. Other training programmes in 2017 included an Advanced AML Risk Management training programme for senior management, compliance workshops for all departments, and a Mystery Shopping workshop arranged for Branches Network, Call Center and Product Development and Management employees.

Celebrating success

In 2017, ten employees who had recently earned professional certificate in Islamic finance from the Bahrain Institute of Banking and Finance (BIBF) were honoured at a ceremony hosted by the BIBF and attended by Ithmaar Bank executives. The employees, from the Commercial and Financial Institutions, Retail Banking, Product Development and Management, and Compliance & Anti Money Laundering departments, had earned the Advanced Diploma in Islamic Finance.

In 2017 Ithmaar Bank employees won first place at the Nations Category in the Bahrain SWS Endurance Championship. Although it was the first time the Bank participated in the Annual Banking and Financial Institutions Futsal Tournament hosted by Al Najma Club, the team finished as the runner up.

Promotions, key management appointments

In line with its long-standing commitment to reinforcing its merit-based culture, promoting from within and developing its entire workforce, including the leadership, Ithmaar Bank announced several promotions and key management appointments in 2017.

In March, Yousif Alkhan was assigned the additional responsibility of Administration and named Head of Information Technology and Administration; in October, Abdulla Abdulaziz Ali Taleb was promoted to Assistant General Manager, Head of the Commercial and Financial Institutions; and in November, Abdulla Al Abbasi was appointed as Head of Product Development and Management.

In November, the Bank also announced the promotion of its two most senior executives to the post of Deputy Chief Executive, naming Abdulhakeem Khalil Al Mutawa Deputy Chief Executive Officer – Banking Group, and Ravindra Anant Khot Deputy Chief Executive Officer – Support Group.

Training (Bahrain)

BIBF levy training	Total: 1,764 Hours Managers and above: 221 Hours Below Managers: 1543 Hours
External Training - Bahrain	Total: 1,398 Hours Managers and above: 618 Hours Below Managers: 780 Hours
External Training - Abroad	Total: 168 Hours Managers and Above: 136 Hours Below Managers: 32 Hours
In-house training	Total: 3564 Hours Managers and Above: 859 Hours Below Managers: 2705 Hours
Financial Advice Programme (FAP) Level 1	2 Employees successfully complete the Programme 5 Employees successfully completed Module 1
Financial Advice Programme (FAP) Level 2	3 Employees successfully complete the Programme 2 Employees successfully completed Module 1
Anti-Money Laundering (AML)	New Joiners: 37 Employees Annual Refresher Course: total 132 employees attended as follows: 106 Employees through E-Learning System Management Session: 19 employees

REVIEW OF OPERATIONS CONTINUED

Staff Overview (Bahrain)

	Bahrainis			Non-Bahrainis			
	Assistant Manager and above	Associate and Senior Officer	Officer and below	Assistant Manager and above	Associate and Senior Officer	Officer and below	Total
Male	67	58	54	9	0	0	188
Female	16	37	35	2	0	0	90
Total	83	95	89	11	0	0	278

Role in the community

The 2017 focus on core business did not distract Ithmaar Bank from its long-standing commitment to playing a real and meaningful role in the community in which it operates. This commitment goes far beyond philanthropy and involves both the Bank as well as its employees at all levels.

Sixteen Ithmaar Bank employees, for example, volunteered their time in 2017 to help prepare Bahrain youth for the future by delivering various programmes in cooperation with InJaz Bahrain, a non-profit organization that aims to empower young people for economic success.

Working with InJaz, Ithmaar Bank also hosted a series of summer camps for children of various age groups. The programme, a first of its kind in Bahrain, involved children of Ithmaar Bank employees spending a full day at the Bank participating in various activities designed to help them gain practical financial knowledge. A total of three, day-long summer camps were conducted over the summer period. Ithmaar Bank also supported the "Head Start" Injaz programme which aimed at helping new graduates find the perfect job and teach them the skills needed to succeed in the workplace.

In 2017, Ithmaar Bank continued its popular Summer Internship programme which aims to help nurture Bahraini undergraduates into future banking professionals. Twenty-five students participated in the two month-long programme which provides real-world experience and outlines how to deal with daily challenges in real work-life situations.

Ithmaar Bank continued in 2017 to support the education of underprivileged students and, together with the Kingdom of Bahrain's Royal Charity Organisation (RCO), sponsors 18 orphaned students from preschool through to Grade 12 at an accredited private school in Bahrain, as well as one Bachelor degree student at an accredited university in Bahrain.

Throughout the year, the Bank also continued to support deserving local charities and participate in various community activities.

In 2017, Ithmaar Bank provided financial support to the Bahrain Institute of Banking and Finance, the University of Bahrain, the Science India Forum Bahrain and the World Robotics Championship to host various student-focused exhibitions and events. The Bank also supported two RCO initiatives, one to develop widows' cooking and management capabilities to help start their own home businesses, and another to help support orphans to join sports programmes.

Bank also provided financial support for the Third International Quran Recitation that was organised by the Bahrain Ministry of Justice, Islamic Affairs and Endowment, as well as an Islamic Society Center for Da'awa initiative for printing the Quran.

In 2017, Ithmaar Bank continued its support, for the tenth consecutive year, of the King Hamad Trophy Golf Championship. The Bank also provided financial support for the Nasser Bin Hamad Football Championship in Ramadan, the Eight Bahrain National Arabian Horse Festival which was organized by the Bahrain Royal Equestrian and Endurance Federation, the Island Classic Charity Golf Tournament which helps raise funds for the American Mission Hospital, and the Bahrain Motorsports Marshals Club. The Bank also continued to support the Bahrain Football Association which organises the King's Football Cup.

Ithmaar Bank also provided financial support to the Bahrain Cancer Society, the Bahrain Society for Training and Development, the Bahrain Future Society for Youth, the Bahrain Contractors Society, the Bahrain Chapter of the Institute of Chartered Accountants of India, and the Bahrain Society for the Prevention of Cruelty to Animals.

Ithmaar Bank also sponsored key national events, including the "Invest in Bahrain Forum 2017" which was organized by the Ministry of Industry, Commerce and Tourism, and participated in key industry events including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Sharia Conference and the AAOIFI–World Bank Conference, as well as the World Islamic Banking Conference and a credit seminar organised by the General Council for Islamic Banks and Financial Institutions.

Award winning achievements

Corporate Social Responsibility Awards

Ithmaar Bank, which has long played an active role in supporting the local community, earned both local and regional praise and recognition for its contributions in 2017.

In December 2017, for example, Ithmaar Bank was presented the Arab Eagle Award for Corporate Social Responsibility (CSR) by the Tatweej Academy in recognition of its continuous efforts in support of the community.

During the award ceremony, which was held in Dubai and organised by the Tatweej Academy for Excellence in the Arab Region, Ithmaar Bank Chairman His Royal Highness Prince Amr Al Faisal was honoured for the Bank's CSR initiatives and presented with the Arab Eagle Award. The Award was received on his behalf by Ithmaar Bank Chief Executive Officer, Ahmed Abdul Rahim, from Major General Dr. Abdul Qudous Al Obaidli, Chairman of the Emirates Strategic Planning Association and Assistant Commander-in-Chief of Quality and Excellence at the Dubai Police.

Ithmaar Bank was nominated by the Union of Arab Bank based on the prestigious international award it received in 2016 at the World Islamic Banking Conference in recognition of its Corporate Social Responsibility and Financial Disclosure.

Earlier, in July 2017, Ithmaar Bank was honoured at a regional conference for its continuous support of the community and presented with the Best CSR Award for an Islamic Bank 2017 in recognition of its various initiatives. The award was presented at the CSR Conference and Award for Islamic Banks which was held in Bahrain and attended by senior bankers, CSR experts and representatives of Non-Governmental Organisations as well as government and banking and finance officials from Bahrain, Saudi Arabia, the United Arab Emirates, Kuwait, Oman, Jordan, Lebanon, Sudan, and the Republic of Djibouti.

Best Islamic Retail Bank

In 2017, Ithmaar Bank was named Best Islamic Retail Bank in Bahrain and honoured at a ceremony attended by senior bankers from across the Middle East. Ithmaar Bank was presented the prestigious award following a comprehensive selection and review process conducted by a committee of high-level economists and banking professionals, as well the research department of Union of Arab Banks (UAB) and the World Union of Arab Bankers (WUAB). The WUAB is a prominent Arab Forum that is patronized by Arab leaders of economics and finance, as well as influential banking pioneers, top experts, successful businessmen, remarkable professionals and brilliant entrepreneurs. WUAB, a sister organisation of the UAB, is a non-profit, non-governmental organisation that enjoys the privileges, immunities and exemptions extended to regional and international organisations operating under the Arab League. The UAB enjoys full financial, administrative and organisational autonomy. According to organisers, the award is "a great achievement and a powerful testimony to the Bank's remarkable success."

Best Innovation in Retail Banking and Best Islamic Bank in Bahrain 2017

Ithmaar Bank won two prestigious awards - Best Innovation In Retail Banking Bahrain 2017, and Best Islamic Bank Bahrain 2017 - from the U.K. based International Banker magazine.

The awards were established to identify the leading organisations within the banking industry that represent the benchmarks of achievement, corporate governance, technological development and customer service and help to drive economic growth in the countries in which they operate. The Banking Awards are open to all banking institutions regardless of size, market cap or number of employees, and the fact that Ithmaar Bank has won two award categories is testimony to the significance its achievements. According to the organisers, the award identifies "the best organisations and individuals in the sector, measured not only by growth, liquidity and profitability but also taking into consideration issues such as product innovation, use of Information Technology (IT), corporate governance, transparency and sustainability."

In January 2017, Ithmaar Bank formally launched Bahrain's first ever mobile payment solution, EasyPay, in partnership with Batelco, Bahrain's leading telecom provider, and Arab Financial Services, one of the region's leading electronic payments outsourcing service providers. The solution uses secure Near Field Communication (NFC) tags to eliminate the need for cash or cards by allowing customers to shop simply by tapping their mobile phones at Point of Sale (POS) machines.

Social Media recognition

The Bahrain Minister of Foreign Affairs, Shaikh Khalid bin Ahmed bin Mohammed Al Khalifa, presented Ithmaar Bank Chief Executive Officer, Ahmed Abdul Rahim an honoring certificate as part of celebrations marking World Social Media Day in Bahrain.

The President of Social Media Club said this was in appreciation for the Bank's contribution in developing social media in the Kingdom, as well as implementing international professional standards at the Bank.

FINANCIAL REVIEW

Financial performance

Ithmaar Bank's net profit stood at BHD6.24 million for the period ended 31 December 2017. The net profit attributable to equity holders of the Bank for the period ended 31 December 2017 was BHD1.58 million.

Ithmaar Bank's financial results show continued profits and stable income for the period. During the period, the Bank recorded an Operating Income of BHD89.2 million. The Bank recorded a total income before provisions for impairment and overseas taxation for the period ended 31 December 2017, of BHD19.0 million.

Financial Position

The results show that the continued focus on core retail banking business is clearly beginning to pay off. The Bank's total assets grew by 4.4 percent over the past nine months to stand at BHD3.24 billion as at 31 December 2017, up from BHD3.11 billion as at 31 March 2017 (the first reviewed financials released for Ithmaar Bank after the reorganization). Murabaha and other financing grew by 5.3 percent during the same period to stand at BHD2.08 billion as at 31 December 2017, up from BHD1.97 billion as at 31 March 2017. Equity of unrestricted investment accountholders grew by 6.5 percent during the same period to stand at BHD1.06 billion as at 31 December 2017, up from BHD1.00 billion as at 31 March 2017, and customer current accounts grew by 12.2 percent during the same period to stand at BHD676.9 million as at 31 December 2017, up from BHD603.2 million as at 31 March 2017.

KEY OPERATING SUBSIDIARY
BOARD OF DIRECTORS
SHARIA SUPERVISORY BOARD
EXECUTIVE MANAGEMENT

KEY OPERATING SUBSIDIARY

Faysal Bank Limited

Faysal Bank Limited (FBL) is one of the most prominent and fastest growing retail banks in Pakistan.

FBL, including its predecessors, has been in operations for the last 30 years and was incorporated in Pakistan on 3 October 1994. FBL shares are listed on the Pakistan Stock Exchange. FBL is mainly engaged in in Commercial, Retail, Corporate and Islamic banking activities and strives to provide quality service to its customers to meet their financial needs. FBL's branches have been transformed into multi-product selling hubs through which customers can access a wide variety of products and services. There is also a great deal of focus on realizing synergies between FBL's various operating units to ensure maximum value creation and holistic customer solutions. Ithmaar Bank owns 66.57 percent of FBL.

FBL's also plans to develop a Digital Banking Strategy in order to provide secure, state of the art user-friendly banking services for its customers.

FBL's total assets and total shareholders' equity as of 31 December 2017 amounted to PKR 472.7 billion (equivalent US$ 4.5 billion) and PKR 38 billion (equivalent US$ 362 million) respectively.

BOARD OF DIRECTORS

HRH Prince Amr Mohammed Al Faisal

Non-Executive Chairman

Elected 1 November 2016

HRH Prince Amr has more than 29 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering.

He is Chairman of the Board of Supervisors of Dar Al Maal Al Islami Trust, and Chairman of Ithmaar Holding, Faisal Islamic Bank (Sudan) and Faisal Islamic Bank (Egypt). HRH Prince Amr is also Founder and Director of the Red Sea Design Consultants (Jeddah), Chairman of the Board of Directors of Al Daleel Company for Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan), Al Wadi Company for Trading Ltd. (Jeddah) and Amr Establishment for Marketing and Commerce. He is a Fellow of the Saudi Association for Construction Societies, City Development and Clean Environment and a Member of the Saudi Council of Engineers. HRH Prince Amr holds a Bachelor of Arts Degree in Architecture from King Abdulaziz University, Saudi Arabia.

Sheikh Zamil Abdullah Al-Zamil

Independent, Non-Executive Board Member

Elected 1 November 2016

Sheikh Al-Zamil is a prominent businessman in the Kingdom of Saudi Arabia and in other GCC, and has more than 37 years of experience in managing business activities in various sectors. He is a Member of the Ithmaar Holding Board of Directors. He is also Executive Vice-President of Zamil Group Holdings Company and serves as the Chairman of Zamil Offshore Services Co. and Zamil Operations and Maintenance Co. Ltd. Sheikh Al-Zamil is actively involved in various institutions such as the Chambers of Commerce, industrial companies and banks in his capacity as a Director. Educated in the United States, he has a BS degree in Petroleum Engineering from the University of Southern California (USC) and an MS degree in the same major from West Virginia University, USA.

Abdelhamid Mohamed Aboumousa

Executive Board Member

Elected 1 November 2016

Mr. Aboumousa has more than 48 years of banking experience.

He is a Member of the Ithmaar Holding Board of Directors, and a member of the Dar Al Maal Al Islami Trust Board of Supervisors.

He is Governor of Faisal Islamic Bank of Egypt, which he joined in 1979. Prior to joining Faisal Islamic Bank of Egypt, Mr. Aboumousa worked in the Central Bank of Egypt for 16 years. He is a Member of the General Assembly of Misr Holding Company for Insurance - Egypt, and is also Head of the Egyptian–Saudi Business Council. He holds a Bachelor of Science Degree in Accounting and a Diploma in Finance from Cairo University in Egypt, and a Higher Diploma in Economics from Lwegi Boconi University in Milano, Italy.

Mohammed A. Rahman Bucheerei

Executive Board Member

Elected 1 November 2016

Mr. Bucheerei has more than 47 years of experience in Accounting, Commercial and Offshore Banking. He was Chief Executive Officer of Ithmaar Bank from 12 July, 2010 to 31 August, 2013, and has been a Member of the Ithmaar Bank Board of Directors since March 2010. He is also a Member of the Bank's Executive Committee.

Mr. Bucheerei is Group Chief Executive Officer of Dar Al Maal Al Islami Trust. He is a Member of the Ithmaar Holding Board of Directors. Previously, he served as the General Manager of the Private Offices of HRH Prince Mohamed Al Faisal Al Saud, Saudi Arabia, and Executive Vice-President, Shamil Bank of Bahrain.

He is Chairman of the Islamic Investment Company of the Gulf (Sharjah) Limited, and a Member of the Board of Directors of the Islamic Investment Company of the Gulf (Bahamas) Limited. Mr. Bucheerei is Chairman of DMI (Jersey) Limited, MFAI (Jersey) Limited, Cantara S.A. (Switzerland), Faisal Finance Maroc S.A, Faisal Private Bureau, DMI Administrative Services, Ithmaar Development Company, Naseej (Bahrain), Naseej Rabat and Sharaka.

He is a member of the Board of Directors of Faysal Bahamas Limited, Crescent International Limited (Bermuda), Gulf Investors Asset Management Company (Saudi Arabia), Overland Capital Group, USA, Crescent International Ltd., DMI NV, Faisal Finance Luxembourg and Shamil Finance Luxembourg.

He studied accounting, mathematics and economics at Gulf Polytechnic, Bahrain.

BOARD OF DIRECTORS CONTINUED

Nabeel Khalid Kanoo

Independent, Non-Executive Board Member

Elected 1 November 2016

Mr. Kanoo has more than 19 years of business and management experience. He is a Member of the Ithmaar Holding Board of Directors.

Mr. Kanoo is Director of Public Relations and Marketing of YBA Kanoo as a group, a Director of YBA Kanoo's Saudi Arabia Board, a Director of YBA Kanoo's Bahrain Board, a Director of Kanoo Travel Co. UK and France, and a Director of Kanoo and El-Shabrawy Ltd. Co. Egypt. Mr. Kanoo holds a Bachelor of Business Management Degree from St. Edwards University, Austin, Texas.

Abdulellah Ebrahim Al-Qassimi

Independent, Non-Executive Board Member

Elected 1 November 2016

Mr. Al-Qassimi has more than 34 years of diversified management experience. He is a Member of the Ithmaar Holding and the IB Capital Board of Directors.

His previous positions include Chief Executive of Tamkeen (the Labour Fund), from which he resigned in May 2010; Deputy Chief Executive Officer of the Labour Fund Project at the Bahrain Economic Development Board; Assistant Undersecretary for Training at the Bahrain Ministry of Labour and Social Affairs; and Director of Engineering and Maintenance at the Bahrain Ministry of Health. He has also served as the Chairman of the Bahrain Qualifications Framework Steering Committee; and the Steering Committee of Career Expo; and was a Board member of the Bahrain Society of Engineers and the Bahrain Consumer Protection Society. He is currently a Member of the Board of Solidarity Group Holding, Naseej, Faysal Bank Limited (Pakistan); and Saudi Solidarity Takaful Co. (KSA), as well as a member of the Board of Trustees of Arabian Pearl Gulf School. Mr. Al-Qassimi holds a BSc in Civil Engineering from Queen Mary College, University of London, UK; a MSc in Health Facility Planning from the University of North London, UK, and a Diploma in Health Care Management from the Royal College of Surgeons in Ireland, Bahrain.

Omar Abdi Ali

Non-Executive Board Member

Elected 1 November 2016

Mr. Ali has more than 49 years of experience in financial and general management in development as well as commercial and investment banking in Africa, the Middle East and Europe. He is a Member of the Ithmaar Holding Board of Directors. Mr. Ali is Founder and Chairman of the Board of Directors of Quadron Investments Co. Ltd. (Sudan) and Integrated Property Investments (United Kingdom and Tanzania). Previously, Mr. Ali served at Dar Al Maal Al Islami Trust (DMI) where he was Chief Executive Officer and Chief Operating Officer from 1986 to 1999 and, before that, Executive Vice-President Finance and Vice-President in charge of Internal Audit from 1983 to 1986. Prior to his DMI appointments, Mr. Ali was Director of Finance and Chief Financial Officer at the Arab Authority for Agricultural Investment and Development (Sudan). He has served in the African Development Bank for ten years and his last post there was CFO of the Bank. He has also served with the Arab Fund for Economic and Social Development and the Arab Authority for Agriculture and Investment where he was also the CFO. He has served these two institutions for seven years. Mr. Ali is a Certified Accountant, Leeds College of Commerce, UK, and a Fellow of the Association of Chartered Certified Accountants.

Dr. Amani Khaled Bouresli

Independent, Non-Executive Board Member

Elected 1 November 2016

Dr. Bouresli, formerly the Kuwait Minister of Commerce and Planning and Development and, before that, Minister of Commerce and Industry, has almost 31 years of experience in training, consulting and banking.

Dr. Bouresli is a member of the Ithmaar Holding and the IB Capital Board of Directors.

She is currently Professor of Finance at Kuwait university's College of Business Administration, and her research interests include Capital Markets Regulations, Corporate Governance and Strategic Planning. Dr. Bouresli is also a Member at the Board of Trustees at Kuwait Transparency Association for the Anti-Corruption Award for the Public Sector in Kuwait. She earned the Middle East Excellence Award in business administration and economics for her contributions toward the development of the capital market structure and regulation in Kuwait. She is the founder of the Governance Excellency Prize. Prior to her ministerial appointments, Dr. Bouresli was Chairman and Founder of Capital Standards Rating Co., the first independent credit rating agency in Kuwait, from 2009 to 2011; a Board Member at Burgan Bank, Kuwait, from 2010 to 2011; and Head of the Capital Market Authority Project from 2006 to 2007. Dr. Bouresli, who has many published work in refereed journals as well as in specialised books and magazines, began her banking career at the National Bank of Kuwait in 1987, and her teaching career at Kuwait University in 1988. Dr. Bouresli holds a BC in Finance and Banking from Kuwait University, Kuwait; an MBA from Seattle University, USA; and a PhD in Finance from Southern Illinois University at Carbondale, USA.

Abdulshakoor Hussain Tahlak

Independent, Non-Executive Board Member

Elected 1 November 2016

Mr. Tahlak has more than 37 years of experience in the United Arab Emirates public and private sectors. He is a member of the Ithmaar Holding Board of Directors. Mr. Tahlak is currently a private consultant to the UAE Minister of State for International Cooperation, and ambassador for Expo 2020 after he resigned as Senior Executive Vice President at Emirates NBD following the Emirates NBD 2007 merger between the National Bank of Dubai (NBD) and Emirates Bank International (EBI). He is currently a board member of the World Union of Arab Bankers in Beirut. Mr. Tahlak has held various management and banking positions including Chairman of NBD Islamic Finance "Al Watani Al Islami", Chairman of Abu Dhabi Investment House, Board member of Industrial Bank in Emirates, Board member of Emirates NBD Securities, Board member of Emirates NBD Investment, and Board member of UAE Banks Federation. He built and developed strong relationships between banks and across official and government entities, and contributed to developing expertise within the UAE banking industry. He also played a major role in developing banking and financial system in the UAE and was a member of various committees at the Central Bank as well as several councils at universities and colleges that worked to address local market requirements, and develop the UAE banking system. Prior to his banking career, Mr. Tahlak served in the UAE Ministry of Foreign Affairs as Head of the International Organization Desk, Diplomatic Department. During his diplomatic career, he joined several official delegations and attended international sessions and meetings. He also participated in several regional and international conferences, and was delegated for short periods to work with the United Nations.

Sheikh Mohamed Abdullah Abdelkarim Elkhereiji

Non-Executive Board Member

Appointed 16 October 2017

Sheikh Elkhereiji has more than 40 years of diversified banking and management experience.

He is a member of the Ithmaar Holding Board of Directors. Sheikh Elkhereiji is the Chairman of many companies in Saudi Arabia, including Elkhereiji Holding Group, Dar for International Food and Bakery and Abdulla Elkhereiji Sons Real Estate Company. Sheikh Elkhereiji is a member in the Board of Supervisors of Dar Al-Maal Al-Islami Trust, and is a member of the Board of Directors of Yanbu Cement Company (Saudi Arabia) as well as the Worldcare International Company (United States of America). Sheikh Elkhereiji is also a member of the Foreign Relations Committee of the Jeddah Chamber of Commerce, a member in the Honorary Advisory Council for the Environment and a member of the Board of Directors of Bayan Educational Institution. Previously, Sheikh Elkhereiji was the Chairman of Faisal Investment Bank (Bahrain). He holds a Bachelor degree in Law from Cairo University, Egypt, a Diploma in Change Management from Harvard, USA, and a Diploma in Marketing Management from the International Marketing Institute, Cambridge in USA.

SHARIA SUPERVISORY BOARD

Sheikh Abdullah Sulaiman Al Manee'a

Chairman

Sheikh Al Manee'a is a prominent, highly-respected Sharia scholar. He is a member of the Senior Sharia Board in the Kingdom of Saudi Arabia and a consultant in the Royal Court. He is the Vice Chairman of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). He is also Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions.

An expert at the Islamic Fiqh Academy, Sheikh Al Manee'a holds a Master's degree from the Higher Institute for Judgment in Saudi Arabia, and has authored several books including 'Paper Money: Truth, History and Reality', 'Economic Research' 'A window on the community' and others.

Sheikh Dr. Nedham Mohammed Saleh Yaqouby

Member

Sheikh Dr. Yaqouby is a prominent, highly-respected Islamic Sharia scholar and a successful businessman from the Kingdom of Bahrain. He is a member of the Sharia Board of the AAOIFI, a member of the Sharia Supervisory Board of the Central Bank of Bahrain (CBB) and Chairman or a member of the Sharia Supervisory Boards of several banks, Islamic financial institutions, investment funds and international banks in the GCC region, Arab countries and around the world.

In 2007, the King of Bahrain, His Majesty King Hamad bin Isa Al Khalifa, awarded Sheikh Dr. Yaqouby the Order Merit in recognition of his services in Bahrain and abroad. Sheikh Dr. Yaqouby has also received the Euromoney award for Innovation in Sharia Supervision, as well as the Malaysian Islamic Banking award and other awards.

Sheikh Dr. Yaqouby holds many academic, appreciation and honorary degrees. He has authored a large number of books.

Sheikh Mohsin Al-Asfoor

Member

Sheikh Al Asfoor is a well-known and highly respected Sharia scholar in the Kingdom of Bahrain. In addition to his membership of the Ithmaar Bank Sharia Supervisory Board, he is a member in the Sharia Supervisory Board of CBB and several Sharia Supervisory Boards in the Kingdom of Bahrain and abroad. He has previously been a judge at the Supreme Sharia Court of Appeal (Jaafari).

Sheikh Al-Asfoor is the Head of the Jaafari Endowments and is a member of the Curriculum Development at the Jaafari Religious Institute as well as the Sharia Board of the International Islamic Rating Agency of the Islamic Development Bank. He is a graduate of Islamic Hawza from Qom, Iran and has authored more than 60 books on Islamic Sharia.

Sheikh Dr. Osama Mohammed Saad Bahar

Member

Sheikh Dr. Bahar is a well-known, highly-respected Sharia scholar from the Kingdom of Bahrain.

He is currently a Sharia member at First Energy Bank. He is also the Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions, funds and investment portfolios in Bahrain and abroad.

Sheikh Dr. Bahar holds a Doctorate from Lahaye University in the Netherlands, a Master's degree from Al Emam Al Awzae University in Lebanon, and a Bachelor's degree in Islamic Sharia from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria.

Sheikh Dr. Bahar has authored several books in Islamic banking as well as society affairs. He has participated in and conducted several radio interviews and written newspaper columns.

EXECUTIVE MANAGEMENT

Ahmed Abdul Rahim

Chief Executive Officer

Qualifications and experience:

- Master of Business Administration, University of Glamorgan, Wales (UK) (1999)
- Associate, the Institute of Financial Accountants, UK (1995)
- 40 years of banking experience
- Joined the group in 2006

Abdulhakeem Khalil Al Mutawa

Deputy Chief Executive Officer, Banking Group

Qualifications and experience:

- Master of Business Administration, University of Bahrain (1991)
- Post-Graduate Diploma in Management, University of Bahrain (1990)
- Bachelor of Science in Mechanical Engineering, The University of Texas at Austin, USA (1981)
- 36 years of experience, of which 15 years in banking
- Joined the group in 2003

Ravindra Anant Khot

Deputy Chief Executive Officer, Support Group

Qualifications and experience:

- Fellow Chartered Accountant (FCA), the Institute of Chartered Accountants of India (1996)
- Bachelor of Commerce (Financial Accounting), University of Mumbai, India (1983)
- 32 years of banking and finance experience
- Joined the group in 2007

Mohammed Hasan Janahi

Assistant General Manager, Head of Retail Banking

Qualifications and experience:

- Advanced Diploma in banking and Finance, BIBF (1998)
- 33 years of Banking experience
- Joined the group in 2002

Yousif Abdulla Alkhan

Assistant General Manager, Head of Information Technology and Administrations

Qualifications and experience:

- Master of Business Administration, AMA International University (2005)
- Bachelor of Science in Computer Science, University of Bahrain (1989)
- 29 years of experience
- Joined the group in 1989

Abdulla Abdulaziz Ali Taleb

Assistant General Manager, Head of Commercial and Financial Institutions

Qualifications and experience:

- Bachelor of Science in Banking and Finance, Kingdom University (2009)
- Advanced Diploma in Islamic Banking, Bahrain Institute of Banking and Finance (BIBF) (2005)
- 18 years of banking experience
- Joined the group in 2014

Krishnan Hariharan

Head of Risk Management, Chief Risk Officer

Qualifications and experience:

- Master in Financial Management, Jamnalal Bajaj Institute of Management Studies, Mumbai University, India (1996)
- Bachelor of Arts, Osmania University, India (1993)
- Bachelor of Commerce, Mumbai University, India (1990)
- 35 years of banking experience
- Joined the group in 2016

Rafed Ahmed Al Mannai

Head of Private Banking

Qualifications and experience:

- Master of Commerce in Information Systems, University of Queensland (2000)
- Bachelor of Science in Architectural Engineering, University of Bahrain (1998)
- 17 years of banking experience
- Joined the group in 2007

EXECUTIVE MANAGEMENT CONTINUED

Yaqoob Salim Al-Shomili

Head of Banking Operations

Qualifications and experience:

- Advanced Diploma in Banking Studies, Bahrain Institute of Banking and Finance (BIBF) (1994)
- Intermediate Diploma in Banking Studies, BIBF (1988)
- 31 years of retail banking experience
- Joined the group in 1986

Dana Aqeel Raees

Head of Legal Department and Corporate Secretary

Qualifications and experience:

- Admitted as a Solicitor in the Senior Courts of England and Wales (2010)
- Post Graduate Diploma in Legal Practice (LPC), UK (2004)
- Bachelor of Laws (LLB), UK (2003)
- 12 years of legal experience
- Joined the group in 2006

Khalil Ebrahim Al-Asfoor

Acting Head of Internal Audit

Qualifications and experience:

- Associate Professional Risk Manager (APRM), Professional Risk Managers' International Association (PRMIA) (2012)
- Chartered Institute for Securities and Investment (CISI), United Kingdom (2012)
- Association of Chartered Certified Accountants (ACCA), (2005)
- B.Sc. In Accounting, University of Bahrain (2001)
- 16 years of retail banking and finance experience
- Joined the group in 2016

Saqib Mahmood Mustafa

Head of Financial Control

Qualifications and experience:

- International Certificate in Banking Risk & Regulation (ICBRR) (2011)
- Member of the Institute of Chartered Accountants of England & Wales (ICAEW) (2010)
- Certified Islamic Professional Accountant (CIPA) (awarded by AAOIFI) (2009)
- Fellow Member of the Association of Chartered Certified Accountants (ACCA) (2003)
- Bachelor of Commerce Karachi University (Pakistan) (1999)
- 19 years of banking and finance experience
- Joined the group in 2007

Taimour Raouf George

Head of Marketing & Corporate Communications

Qualifications and experience:

- B.Sc. Computer Science, University of Bahrain (2001)
- 20 years of communications experience
- Joined the group in 2008

Dr. Adel Ahmed Al Marzooqi

Sharia Coordination & Implementation Officer

Qualifications and experience:

- PhD in Islamic Studies, Lahaye University, The Netherlands (2011)
- PhD with a Major in Islamic Studies, The Regent of American World University (2008)
- Master's Degree in Islamic Studies, Lebanon (2004)
- Bachelor in Islamic Studies, Lebanon (1997)
- 17 years of Sharia experience
- Joined the group in 2009

Ayoob Yousif Al Awadhi

Head of Asset Management

Qualifications and experience:

- Certified Financial Analyst, CFA Institute (2014)
- Project Management Professional, Project Management Institute (2012)
- Masters of Business Administration, University of Starthclyde (2008)
- B.Sc. In Network Computing, Napier University, Edinburgh (2001)
- 7 years of experience in asset management
- 8 years of experience in information technology
- Joined the group in 2007

Enas Mohamed Rahimi

Head of Human Resources

Qualifications and experience:

- Certificate in Personnel Practice (CPP), CIPD (2010)
- MBA specialized in Project Management, AMA International University (2006)
- BSc. In Banking & Finance, University of Bahrain (2001)
- 12 years of human resources experience
- Joined the group in 2005

Hana Ahmed Al Murran

Head of Compliance and Anti-Money Laundry, Compliance Officer

Qualifications and experience:

- Master of Business Administration, University of Strathclyde Business School (2012)
- Bachelor of Science in Banking and Finance, University of Bahrain (2003)
- Certified Anti-Money Laundering Specialist (CAMS) awarded by the Association of Certified Anti-Money Laundering Specialist (ACAMS)
- 14 years of regulatory, banking and finance experience
- Joined the group in 2015

Jassim Mohamed Al Najem

Head of Administration

Qualifications and experience:

- High School Diploma (1980)
- 13 years of administrations experience
- 23 years of information technology experience
- Joined the group in 1992

Abdulla Abdulaziz Al Abbasi

Head, Product Development & Management

Qualifications and experience:

- Advanced Diploma in Islamic Finance, BIBF (2017)
- Associate Diploma in Business Management, University of Bahrain (2002)
- 18 years of banking and finance experience
- Joined the group in 2007

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Ithmaar Bank follows the "High Level Controls" and "Public Disclosure" Modules of the Rulebook issued by the Central Bank of Bahrain (CBB) and the Corporate Governance Code of the Ministry of Industry, Commerce and Tourism, Ithmaar Bank's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and international best practices, where applicable.

Ithmaar Bank's Corporate Governance Policy provides guidance on engaging with its stakeholder groups.

Recognising its fundamental stewardship role towards shareholders, it is Ithmaar Bank's policy to treat shareholders in line with the governing laws and regulatory guidelines. The overarching goal is to ensure sustainable growth with due consideration to both current and future risks, and thereby generate optimum value to shareholders over the long-term. The Bank adheres to Sharia principles in striking a balance between the interests of its various stakeholders.

Ithmaar Bank adheres to a business approach that is transparent, honest and fair. It has established various written policies such as the Code of Ethics and Business Conduct, Anti-Money Laundering and Whistle-Blowing Policy for strict adherence by Directors, executives and employees at all levels. These are distributed as guidelines through multiple internal communication channels.

The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

Moreover, the corporate governance policies are designed to lay a solid foundation for the executive management and the Board of Directors in managing the Bank, as well as to promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly and recognise the legitimate interest of stakeholders.

The written Code of Ethics and Business Conduct that binds all employees and members of the Board of Directors, lends further weight to the practical implementation of our stated policies.

The "Comply or Explain" Principle

The CBB Rulebook requirements in the HC Module specify that the Bank must comply with the Rules and Guidelines of the HC Module, or explain its non-compliance in the Annual Report. As part of its commitment to adherence with the CBB regulations, the Bank wishes to clarify the following:

- The Chairman is a non-executive director but not an independent director, as defined by the CBB, as he is the Chairman of the Board of Supervisors of Dar Al Maal Al Islami Trust, the Bank's controller.
- During the year, one Board members did not satisfy the 75 percent minimum required attendance percentage for Board meetings due to the reasons explained under the Board Meeting Attendance section of this report.
- The first financial reporting of the Bank was for the quarter ending 31 March 2017, as being the first quarter after the start of the reorganisation. During 2017, the Audit, Governance and Risk Management Committee (AGRMC) met only three times to discuss, amongst other agenda items, financial results for the first, second and third quarters of the year 2017. Thereafter the Committee met in February 2018 to discuss, amongst other agenda items, the financial results for the fourth quarter of 2017. Going forward from 2018, the Committee shall meet at least four times in any given financial year.

Developments in regulations

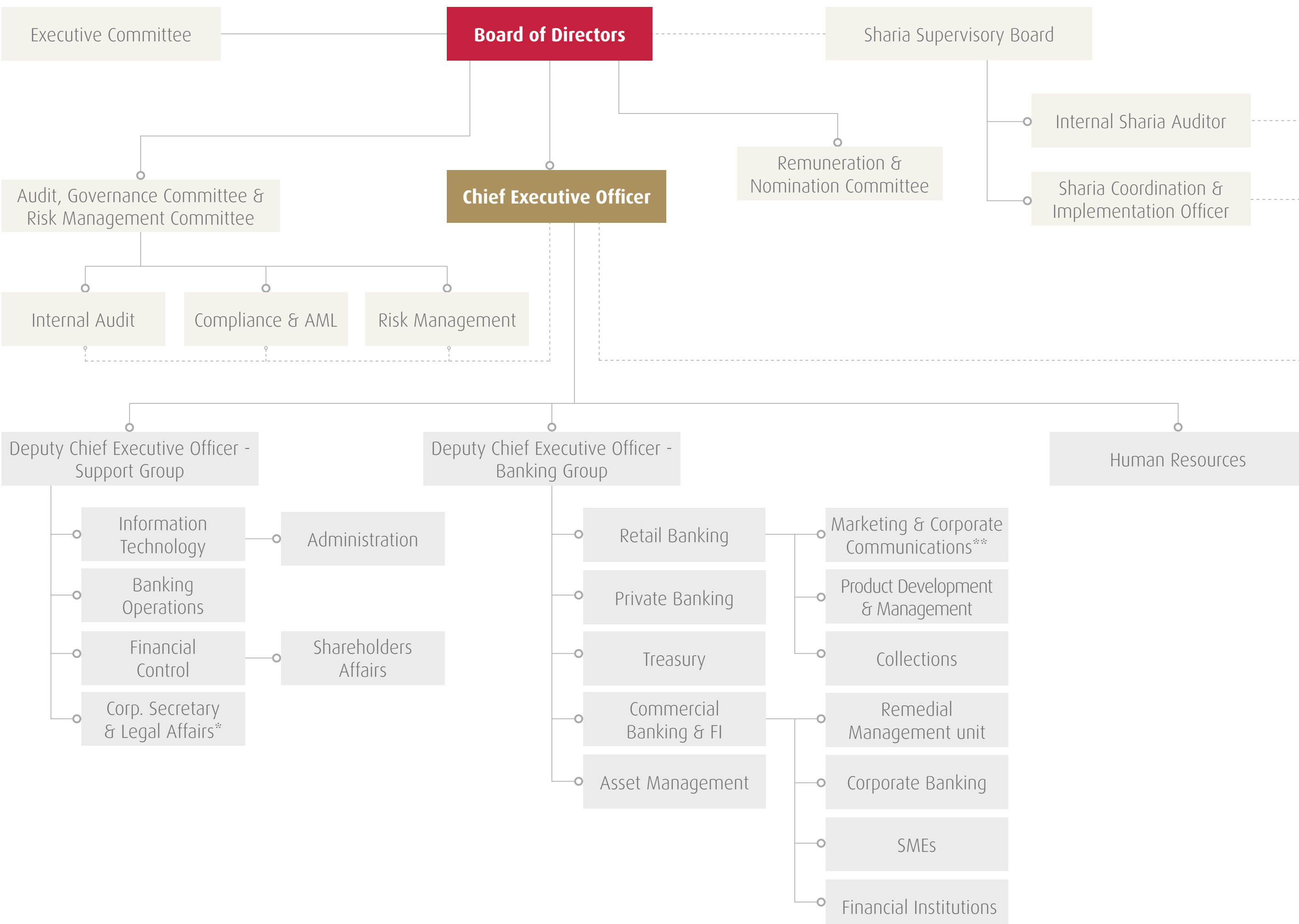
On an ongoing basis, the Bank monitors updates in the CBB requirements, including those stipulated under the HC Module, and implements the necessary updates to its processes and procedures in response to those regulatory changes. There were no material changes introduced to the HC Module by the CBB during the year.

Administration

Ithmaar Bank is administered by the Board of Directors and the Sharia Supervisory Board and, for day-to-day matters, by the Executive Management.

CORPORATE GOVERNANCE CONTINUED

ORGANISATION CHART



Notes:

* For Corporate Secretarial related matters, the Corporate Secretary reports to the Chairman of the Board of Directors and, administratively, reports to the Chief Executive Officer.

** The Head of Marketing & Corporate Communications reports to the Deputy CEO Support Group for Corporate Communications, and to the Head of Retail Banking for Marketing Communications.

Board of Directors

The Board of Directors of Ithmaar Bank is comprised of ten members, of whom five are independent. The board, its committees and individual directors are regularly assessed with respect to their effectiveness and contributions.

The Board owes a fiduciary duty of obedience, care and loyalty to Ithmaar Bank and the shareholders.

The Board is committed to the role and responsibilities prescribed by the Bahrain Commercial Companies Law, which role and responsibilities are reflected in Ithmaar Bank's Corporate Governance Policy and constitutive documents.

The Board's role and responsibilities include, but are not limited to, the overall business performance and strategy for the Bank; causing financial statements to be prepared which accurately disclose Ithmaar Bank's financial position; monitoring management's performance; monitoring conflicts of interest and preventing abusive related party transactions; and assuring equitable treatment of shareholders. In particular, the Board, among other things, ensures that Ithmaar Bank's goals are clearly established, and that strategies are put in place towards achieving those goals.

Members of the Board are responsible, both individually and collectively, for performing these responsibilities, including the following:

- Maintains an overall responsibility for the performance of Ithmaar Bank;
- Establishes policies for strengthening the performance of the Bank, including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and the development of its business capital;
- Selects, appoints, monitors and evaluates the performance of management;
- Appoints the Chief Executive Officer and the executive management, as well as setting the terms of their employment;
- Reviews the performance and compensation of the management;
- Reviews the structure and succession planning of the management;
- Manages and advises the management;
- Monitors and managing potential conflicts of interest;
- Decides on whatever steps are necessary to protect the Bank's financial position and viability;
- Ensures that the financial statements are true and fair, and otherwise conform with applicable law;
- Ensures adherence to high standards of ethics and corporate governance;
- Ensures that appropriate risk management and regulatory compliance policies are in place;
- Monitors the effectiveness of the governance, compliance, and internal control framework;
- Ensures timely and adequate legal and regulatory disclosures;
- Arranges the shareholders' ordinary and extraordinary general meetings; and
- Ensures equitable treatment of minority shareholders.

Some of the responsibilities of the Board of Directors are delegated to the Committees of the Board.

The Board of Directors has drawn a 'Business Discretionary Powers' policy which outlines authorities and approval powers for the Board and the Executive Management. In general, all business decisions relating to strategic investment, and financing exceeding certain limits, including business relationship with connected counterparties, require the Board's approval. All transactions that require Board approval have been approved by the Board as per applicable regulations.

The Board's functions, mandate, appointment, responsibilities and terminations are governed by the Articles of Association and Corporate Governance Policy of Ithmaar Bank, which complies with applicable statutory and regulatory rules. Board members serve three-year terms. At the end of each term, the new Board is to be elected (or appointed, as applicable) at Ithmaar Bank's Annual General Meeting.

The next election of the Board of Directors will take place during the Annual General Meeting to be held in 2019.

STRUCTURE AND COMPOSITION OF THE BOARD

Ithmaar Bank is managed at the high level by the Board. The size of the Board is subject to Ithmaar Bank's Articles of Association and the rules and regulations decreed by the Ministry of Industry, Commerce and Tourism and the Central Bank of Bahrain.

DUTIES OF BOARD MEMBERS

The Board members, individually and collectively, are bound by distinct fiduciary duties to Ithmaar Bank. The Board members owe their fiduciary duty to the Bank as a corporate entity in its own right and not just individual shareholders and/or group of shareholders. These duties apply to all the Board members whether they are appointed or elected.

The main duties owed by Board members to Ithmaar Bank are the duty of obedience, the duty of care and the duty of loyalty.

CORPORATE GOVERNANCE CONTINUED

Duty of Obedience

The Board members are required to act in accordance with Ithmaar Bank's rules and policies to further its goals and objectives. In addition, the Board members must comply with all relevant laws and regulations. The duty of obedience forbids the Board members from acting outside the scope of Ithmaar Bank's internal authorities and policies.

Duty of Care

The Board members are under duty to exercise, in carrying out their responsibilities in good faith, the same level of care, skill and diligence that an ordinary, prudent person would exercise in the same position or under similar circumstances. Accordingly, the Board members must act in a manner that they reasonably believe is in the best interest of Ithmaar.

Duty of Loyalty

This duty requires the Board members to act in good faith, solely and collectively, in the best interest of Ithmaar Bank. The Board members should not act out of expedience, avarice or self-interest. The Board members are barred from using Ithmaar Bank properties and assets for their personal needs or seeking business opportunities for personal benefit.

Ithmaar Bank provides insurance to indemnify the Board members for negligence, default, breach of duty or breach of trust, provided that the Board member was acting in good faith.

The above duties are detailed in the Corporate Governance Policy and Code of Ethics and Business Conduct, which is approved by the Board.

BOARD MEMBERS' ELECTION AND EVALUATION SYSTEM

Any shareholder who owns 10 percent or more of the issued share capital of Ithmaar Bank (rounded up to the nearest integer) shall have the right to appoint a representative on the Board, being one representative for each 10 percent owned. However, if a shareholder exercises this right, he shall lose his right to vote in the General Meeting for the percentage of which he used to appoint a Board member.

Subject to the foregoing, the shareholders shall elect members of the Board by a secret accumulative ballot. Accumulative ballot means each shareholder has one vote for each share held. The shareholder can use his shares to vote for a single member, or divide his shares to vote for multiple Board members.

All appointments to the Board of Directors are governed by and subject to Ithmaar Bank's Memorandum & Articles of Association, the Corporate Governance Policy and the laws, rules, regulations, policies and charters in place, as amended from time to time.

The Remuneration and Nomination Committee reviews annually the composition and performance of the Board of Directors. The Remuneration and Nomination Committee's duties in relation to the composition and performance of the Board include, among other things, assessing the skills required for the Board members to competently perform their responsibilities and meet their objectives as well as developing and implementing a plan to identify, assess and enhance the Board members' competencies.

In the event of a vacancy on the Board of Directors, the Remuneration and Nomination Committee shall make recommendations to the Board for the appointment of a director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All the Board members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

The Board members also receive a copy of the Code of Ethics and Business Conduct.

BOARD INDUCTION AND DEVELOPMENT PROGRAMME

Ithmaar Bank prepares an all-day induction program for newly appointed/elected Board members, which starts with a welcome note from the Chief Executive Officer. Thereafter, members of the Executive Management introduce Ithmaar Bank in detail, covering Ithmaar Bank's history, structure, subsidiaries, products, strategy, financial performance and organizational chart. This is followed with presentations from the heads of various departments in respect of their role and function within Ithmaar Bank. The Bank also arranges training sessions throughout the year for Board members and Executive Management to keep them abreast of recent legal, regulatory, market, technological and other developments in the banking sector.

BOARD MEMBERS' REMUNERATION

The Board members' sitting fees for 2017 amounted to BHD127,800. Sharia Supervisory Board retention fee amounted to BHD22,620 and their sitting fees for 2017 was BHD7,917.

Remuneration strategy

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

The Bank's reward package comprises the following key elements:

1. Fixed pay;
2. Benefits;
3. Discretionary performance bonus

A robust and effective governance framework ensures that the Bank operates within clear parameters of its remuneration strategy and policy.

All remuneration matters, and related overall compliance with regulatory requirements, are overseen by the RNC.

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

In order to ensure alignment between what we pay our employees and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives in line with our performance management system.

This assessment also takes into account adherence to the Bank's values, risk and compliance measures and, above all, acting with integrity.

Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also, importantly, on how it is achieved, as the RNC believes the latter contributes to the long-term sustainability of the business.

Remuneration Policy

The Remuneration Policy is reviewed on a periodic basis to reflect changes in market practices and Ithmaar Bank's business plan and risk profile.

The Bank's remuneration policies will apply only to its subsidiaries which are licensed by CBB under Volume 1 or Volume 2 of CBB Rulebook. In case of other subsidiaries, representative offices and branches of the Bank, the RNC should ensure that, where applicable, such entities do comply with local rules that apply to their remuneration policies.

No external consultants' advice was sought in 2017 regarding the remuneration process.

Ithmaar Share Incentive Scheme

The Award Price of the Phantom Shares (as Ithmaar Bank is not listed) will be defined to be the adjusted Net Book Value (NAV) as per the latest audited financial statements of the Bank.

Employment of Relatives of Approved Persons

The Human Resources Policy of Ithmaar Bank indicates that any Employee who is considered a first degree relative of an existing Approved Person and/or any Approved Person who is considered a first degree relative of an existing Sharia Supervisory Board Member in the Bank is required to declare the relationship in writing to the Human Recourses Department.

Variable remuneration for employees

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

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

CORPORATE GOVERNANCE CONTINUED

Variable remuneration for employees Continued

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

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

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

At the individual level, poor performance by the Bank would mean individual KPIs are not met and hence employee performance ratings would be lower.

Remuneration of control functions

The remuneration structure of control function personnel should not compromise their independence or create conflicts of interest in their advisory role to the RNC. The RNC will ensure that the increased conflicts of interest arising from variable remuneration of the control functions based on institution-wide performance criteria is properly addressed.

The Bank will take all reasonable steps to ensure that control function personnel are not placed in a position where, for example, approving a transaction, making decisions or giving advice on risk and financial control matters could be directly linked to an increase in their performance-based remuneration.

The variable remuneration of those staff members in control functions will be designed in a way that avoids conflict of interests related to the business unit they are overseeing and will be appraised and determined independently.

Risk assessment framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. The risk assessment process encompasses the need to ensure that the remuneration policy reduces employees' incentives to take excessive and undue risk, is symmetrical with risk outcomes, and has an appropriate mix of remuneration that is consistent with risk alignment.

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

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

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

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

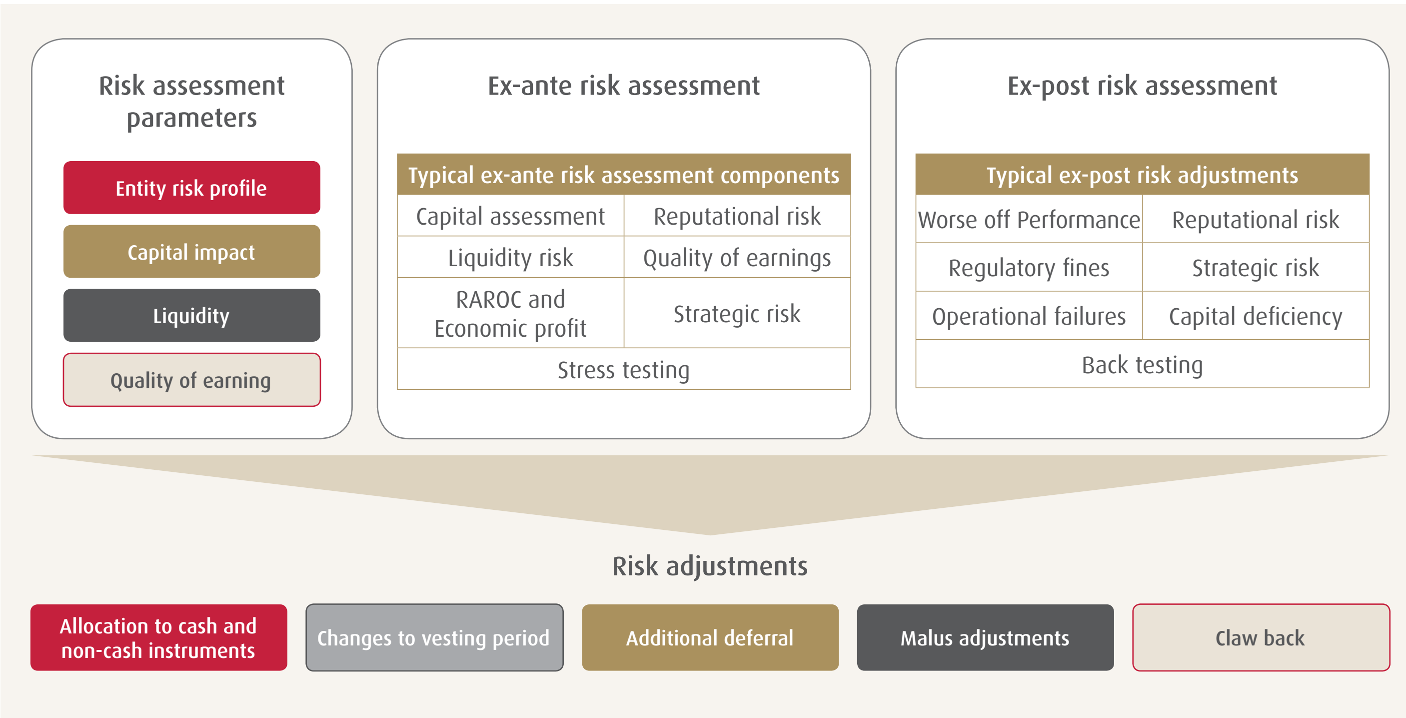
(b) The cost and quantity of the liquidity risk assumed in the conduct of business; and

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

Risk adjustment methodologies

The Bank's risk alignment framework will use a mix of quantitative and qualitative approaches.

The Bank's risk adjustment framework is set out below:



Long-term performance measures

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

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

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

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Bank or the employee's business unit to suffer material loss in its financial performance, material misstatement of financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

CORPORATE GOVERNANCE CONTINUED

Components of Variable remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a vesting period of three years.
Deferred Non-cash	The Bank has two forms of non-cash awards to align long term performance and risk and to encourage employee retention: • Deferred short term incentives – incentives that are rewarded for current performance and considered as earned but are deferred in terms of payment to employees. These include deferred annual bonuses in the form of Phantom Shares Awards ('PSA') or deferred annual bonus Performance Linked Units (PLU). The minimum term of deferral is three years. • Future performance awards (FPA) – incentives that are awarded with future performance and service conditions i.e. not yet earned by the employee. FPAs include Long Term Incentive Plan (LTIP) shares in the form of Phantom Shares and performance linked units and provide better risk alignment to the business and individual performance of the employee.

Deferred compensation (Bahrain)

All employees with job titles of Executive Senior Manager and above shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	Assistant General Managers and above	Executive Senior Managers	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	70%	Immediate	-	-	Yes
Deferred cash	-	30%	Over 2 years	-	Yes	Yes
	10%	-	Over 3 years	-	Yes	Yes
Deferred non-cash	50%	-	Over 3 years	6 months	Yes	Yes

Minimum vesting period

The minimum vesting period for deferred annual bonus share awards is pro-rata over a minimum three-year period, i.e. at most, a third of the deferred awards vest each year. For Future performance awards (FPA), the Bank may provide for a longer period to align with the underlying performance conditions, but a minimum period of three years would apply.

Employee remuneration (Bahrain)

	2017										
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
	No. of Staff	Cash	Others	(Cash/shares)	(Cash/shares)	Cash	Shares	Cash	Shares	Others	**Total**
Approved persons Business lines	5	1,130,823	-	484,351	-	196,006	-	49,945	238,400	-	**484,351**
Control & support	8	1,083,290	-	272,055	-	123,886	-	37,248	110,921	-	**272,055**
Other material risk takers	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	**-**
Other staff	3	258,730	-	22,133	-	15,493	-	6,640	-	-	**22,133**
Other Staff of Bahrain Operations	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	**-**
Staff of Branches & subsidiaries	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	**-**
Total	**16**	**2,472,843**	**-**	**778,539**	**-**	**335,385**	**-**	**93,834**	**349,321**	**-**	**778,539**

Deferred awards for Current Year (2017)

	Cash	**Shares**		**Total**
	BHD	Number	BHD	BHD
Balance transferred / adjusted as part of reorganisation (Note 1)	210,679	7,240,713	744,024	954,703
Paid out / released during the period before conversion to Phantom shares	-	(1,209,677)	(93,490)	(93,490)
Adjustment on conversion of shares to Phantom shares	-	1,881,546	-	-
Phantom shares post conversion	210,679	4,149,490	650,534	861,213
Awarded during the period	-	-	-	-
Paid out / released during the period	(64,787)	-	-	(64,787)
Service, performance and risk adjustment	-	-	-	-
Bonus share adjustment	-	-	-	-
Closing Balance	145,892	4,149,490	650,534	796,426

Notes:

1- The payment of vested shares for the deferred component was completed after the reorganisation.

2- The number of shares have been adjusted to reflect the Phantom Shares in Ithmaar Bank B.S.C. (c) post reorganisation.

CORPORATE GOVERNANCE CONTINUED

Board committees

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

AUDIT, GOVERNANCE AND RISK MANAGEMENT COMMITTEE

During 2017, the Audit and Governance Committee (AGC) and the Risk Management Committee (RMC) were merged into the Audit, Governance and Risk Management Committee (AGRMC). Also, their related functions and responsibilities are now under the AGRMC.

The AGRMC is chaired by an Independent Director and is comprised of:

- Dr. Amani Khaled Bouresli – Chairperson and Member
- Sheikh Zamil Abdulla Al-Zamil – Member
- Mr. Abdulellah Ebrahim Al-Qassimi – Member
- Mr. Nabeel Khalid Kanoo – Member
- Sheikh Dr. Osama Bahar – Member

Sheikh Dr. Bahar is a Sharia Supervisory Board Member with a voting right in respect of the agendas relating to the Corporate Governance

The AGRMC meets a minimum of four times in a year.

The AGRMC is appointed by the Board of Directors to assist in reviewing the selection and application of the accounting and financial policies, reviewing the integrity of the accounting and financial reporting systems and the effectiveness of the internal controls framework, monitoring the activities and performance of the internal audit function and external auditors and coordinating the implementation of the Corporate Governance Policy framework.

The Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors, among other things: the interim and annual consolidated financial results; status updates on compliance with various regulatory requirements; implementation on various regulatory reports; internal and external audit reports the status of their implementation (as appropriate); and new accounting and regulatory pronouncements and their implications.

This committee also assists the Board in fulfilling its governance responsibility, particularly to (a) oversee and monitor the implementation of a robust compliance framework by working together with the Management and the Sharia Supervisory Board, and (b) provide the Board of Directors with reports and recommendations based on its findings in the exercise of its function.

The objectives of Committee also include making recommendations to the Board in relation to the overall risk appetite and tolerances and the risk policies within which to manage them. These policies cover credit risk, market risk, operational risk and liquidity risk in addition to any other risk categories Ithmaar Bank faces in carrying out its activities.

The Committee also recommends and monitors the overall risk management framework in line the regulatory guidelines which involves all business activities and operations policies, internal controls, methods of risk management and risk reporting to the Board. The Committee also ensures that the information security and the business continuity management framework of the Bank is in line with regulatory guidelines and commensurate to the scale of business operations of the Bank.

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board of Directors during the year include:

- Reviewing the consolidated financial statements and recommending to the Board for approval;
- Reviewing and approving the proposed annual Internal Audit plan and strategy and all reports issued by the Internal Audit Department;
- Providing oversight for the Corporate Governance, Compliance and Regulatory requirements.
- Updating and aligning all risk policies in line with changes in the regulatory requirements;
- Reviewing of existing risk limits and establishing new risk limits for better control of credit, market, operational, liquidity, profit rate risk and concentration risks; and
- The Internal Capital Adequacy Assessment Process (ICAAP) report for review.

EXECUTIVE COMMITTEE

The Executive Committee is appointed by the Board of Directors to assist with the oversight of the general management of Ithmaar and its business by management, as well as considering and recommending to the Board of Directors the strategy, business plans and budget and evaluating the financial and business performance.

The Executive Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board: credit proposals over certain threshold; asset quality and exit strategies; status updates and reports from the management in respect of major issues and group reorganisation; consolidated financial performance; liquidity and capital adequacy action plan; strategic business plan; and key management initiatives, including with respect to Funds Under Management.

The Committee meets at least twice a year.

The Executive Committee comprises:

- Mr. Omar Abdi Ali - Chairman and Member
- Governor Abdel Hamid Abou Moussa - Member
- Mr. Mohammed Bucheerei – Member

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board of Directors during the year include:

- Evaluating the financial and business performance and monitoring the implementation of the approved business / budget plans against Key Performance Indicators (KPIs);
- Approving business proposals falling within its authority in accordance with the Business Discretionary Powers Policy.
- Reviewing the Company's funding requirements and strategies;
- Reviewing the strategic business plan and annual budget and recommending to the Board for approval;
- Reviewing the financial position (including the capital adequacy and liquidity positions) and the status of its overall business portfolio; and
- Reviewing strategic and other investments.

Remuneration and Nomination Committee (RNC)

The Remuneration and Nomination Committee is appointed by the Board of Directors to provide a formal forum for communication between the Board and Management on human resource issues. The aggregate remuneration paid to its members in 2017 was USD30,000.

The Remuneration and Nomination Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors:

- Candidates for Board election
- The appointment of new senior management executives
- The remuneration policies as well as guidelines for increments and promotions

The RNC meets at least twice a year.

On 20 August 2017, RNC Chairwoman and Member Sheikha Hissah Bint Saad Al-Sabah resigned from the Board of Directors, and subsequently RNC Member Abdulellah Ebrahim Al-Qassimi was appointed Chairman.

The RNC is comprised of:

- Mr. Abdulellah Ebrahim Al-Qassimi, Chairman and Member
- Mr. Abdulshakoor Hussain Tahlak, Member
- Sheikh Zamil Abdullah Al-Zamil, Member

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- Recommending to the Board changes in the structure and job descriptions of Approved Persons
- Recommending the composition, quantum and structure of remuneration for the members of the Sharia Supervisory Board
- Recommending the organisation chart and succession plan
- Recommending the Variable Remuneration Policy implemented in compliance with the regulations of the Central Bank of Bahrain on Sound Remuneration Practices of Approved Person and Material Risk Takers.

CORPORATE GOVERNANCE CONTINUED

ATTENDANCE

2017 Board of Directors / Board Committees Meetings Attendance

		Board of Directors		Audit, Governance & Risk Management Committee		Executive Committee		Remuneration & Nomination Committee	
		Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
1	HRH Prince Amr Mohammed Al Faisal	5	5	-	-	-	-	-	-
2	Mr. Khalid Abdulla-Janahi (Resigned 11 June 2017)	2	2	-	-	-	-	-	-
3	Shaikha Hissah bint Saad Al-Sabah (Resigned 20 August 2017)	3	1	-	-	-	-	2	1
4	Sheikh Zamil Abdullah Al-Zamil	5	3	3	2	-	-	-	-
5	Governor Abdelhamid Abomoussa	5	5	-	-	2	2	-	-
6	Mr. Nabeel Khaled Kanoo	5	4	3	3	-	-	-	-
7	Mr. Mohammed Bucheerei	5	5	-	-	2	2	-	-
8	Mr. Abdulellah Ebrahim Al-Qassimi	5	5	3	3	-	-	2	2
9	Dr. Amani Khaled Bouresli	5	5	3	3	-	-	-	-
10	Mr. Abdulshakoor Hussain Tahlak	5	4	-	-	-	-	2	2
11	Sheikh Mohamed Abdullah El Khereiji (Appointed 16 October 2017)	1	1	-	-	-	-	-	-
12	Mr. Omar Abdi Ali	5	5	-	-	2	2	-	-

Dates of meeting during 2017

	Board of Directors	Audit, Governance & Risk Management Committee	Executive Committee	Remuneration & Nomination Committee
	1 March	7 May	3 June	1 March
	4 June	6 August	2 December	18 September
	9 August	5 November		
	18 September			
	4 December			

Note: *Sheikh Dr Osama Bahar, member of the Sharia Supervisory Board, is also a member of the Audit, Governance and Risk Management Committee. He attended all four meetings.

In accordance with the Central Bank of Bahrain's requirement and Ithmaar Bank's Articles of Association, the Board of Directors shall meet at least four times a year, and each Board member is required to attend at least 75 percent of all Board meetings in a financial year. The following Board member did not satisfy the minimum required attendance percentage:

- Sheikh Zamil Al-Zamil:
- Did not attend the Extraordinary Teleconference meeting held on 9 August 2017, as he could not be reached by phone; and
- Did not attend the Board of Directors meeting held on 18 September 2017, as he was travelling and could not be reached by phone.

SHARIA SUPERVISORY BOARD

The Sharia Supervisory Board (SSB) is an independent board of specialised scholars in Sharia and Fiqh of financial transactions according to Sharia requirements. SSB contributes in the guidance and development of Ithmaar Bank's activities and it monitors its business to ensure it is compliant with Islamic Sharia principles.

The SSB is appointed in compliance with licensing requirements of the Central Bank of Bahrain (CBB) and Ithmaar Bank's Memorandum and Articles of Association by the shareholders at the General Meeting based on recommendations of the Board of Directors through the Remuneration and Nomination Committee.

The SSB has full authority to achieve its goals and responsibilities. It is also allowed to view all records and transactions from any sources without restrictions including; access to the Board and to the management personnel, professional and legal consultants, employees, including access to the head of the Sharia Compliance Department at Ithmaar Bank, which is represented by the Sharia compliance officer who is proactively involved in: (a) reviewing and advising on the Sharia compliance of all products and investment projects, (b) reviewing operations according to SSB fatwas and AAOIFI standards and (c) producing periodic reports to the SSB in order to ensure that activities are under a strict and direct oversight of SSB guidelines and decisions. Furthermore, the Sharia Compliance Department monitors activities on a day-to-day basis to ensure that all areas adhere to the SSB's decisions and recommendations.

The SSB operates within its own charter which sets forth its policies, procedures, meeting operations and responsibilities in addition to the qualifications for membership. This charter was developed in coordination with the Board and is disclosed on the website.

SSB members are entitled to remuneration comprising an annual retainer fee and sitting fees paid per meeting attended.

These remunerations are recommended by the Remuneration and Nomination Committee, the structure of which is approved by the shareholders.

Currently, Ithmaar Bank does not pay any performance related remuneration to SSB members. If any, this will be structured in accordance with the Memorandum and Articles of Association and subject to shareholder approval.

The profiles of all SSB members are included in the Sharia Supervisory Board section.

MANAGEMENT

The day-to-day operations of Ithmaar Bank are handled by the Executive Management team.

Departments are grouped into Business, Control and Support Units with clear definition between them to avoid conflicts of interests. These safeguard measures are reinforced by independent Internal Audit, Risk Management, Compliance and Anti-Money Laundering departments as well as an Internal Sharia Auditor and a Sharia Coordinator and Implementation Officer.

The Risk Management Department, the Compliance and Anti-Money Laundering, and the Internal Audit department each report functionally to the Audit, Governance and Risk Management Committee (and), administratively, to the Chief Executive Officer. The Internal Sharia Auditor and the Sharia Coordinator and Implementation Officer reports functionally to the Sharia Supervisory Board, and, administratively, to the Chief Executive Officer.

The total remuneration of the Chief Executive Officer and senior management in 2017 was US$6.5 million (2016: US$6.9 million).

Management committees

Ithmaar Bank has the following key Management Committees:

Investment and Credit Committee (ICC)

The main objective of this Committee is to manage credit risk, including reviewing, approving and ratifying business proposals falling within its authority, reviewing risk management reports and resolving all credit-related issues. The Committee is chaired by the Chief Executive Officer.

Asset and Liability Management Committee (ALCO)

The Committee is responsible for business performance review, managing market and liquidity risks, and monitoring the capital adequacy ratio. The main functions are to develop and manage assets and liabilities in accordance with the Strategic Business Plan and relevant banking regulations and laws. The Committee is chaired by the Chief Executive Officer.

CORPORATE GOVERNANCE CONTINUED

Crisis Management Committee (CMT)

The Committee defines the roles and responsibilities for executives in the management of a crisis, including an assessment of the impact an event will have on time-sensitive business processes, and guidance on formally declaring a disaster. Since such plans are developed to address the worst-case scenario, they are likely to require alteration at the time of the event to effectively address the specific situation.

This CMT is responsible for working with each of the teams to refine strategies, tasks, and assignments at the time of the incident; therefore CMT will meet at least twice a year. The CMT plays a leadership role in managing disasters as well as maintaining the Bank Business Continuity plan. The Committee is chaired by the Chief Executive Officer or by the next reporting line at the Bank, and consists of the respective departmental managers.

Information Security Steering Committee (ISSC)

The Committee's focus is to ensure the confidentiality, integrity, and availability of the Bank's information technology resources and data by safeguarding them from compromise, misuse, loss or damage caused intentionally or unintentionally. The Committee is chaired by the Deputy Chief Executive Officer - Support Group.

IT Steering Committee (ITSC)

The Committee is a recommendation-making authority with regards to Information Technology (IT), its strategy, management and governance. The ITSC reports to the Chief Executive Officer and is responsible for the effective and cost-efficient application of information technologies, related personnel resources and funding to achieve the goals and the needs of the Bank. The IT steering committee aims to obtain the greatest value and returns for its use within a well-controlled risk containment framework. The Committee is chaired by the Deputy Chief Executive Officer - Support Group.

Complaints Committee

The main purpose of this committee is to validate the complaints in order to report the same to CBB, and only the valid complaints shall be reported. The valid complaints shall not include allegations, recommendations or request of information.

Communication with stakeholders

Ithmaar Bank maintains a website which customers and other stakeholders may access for information about products and services, as well as the corporate profile, corporate information, press releases and financial performance, amongst others.

Management Changes

Changes in the organisational structure and reporting lines

1. March 2017: The Administration Department's reporting line was shifted from the Chief Operating Officer to the Assistant General Manager, Head of Information Technology.

2. December 2017: The Remedial Management Unit and Collections Department was separated into the Remedial Management Unit (RMU), with dual reporting - RMU directly to the Head of Commercial Banking and Financial Institutions, and the Collections Unit reporting directly to the Head of Retail Banking.

3. December 2017: The Sharia Compliance function was separated into the Internal Sharia Auditor and the Sharia Coordinator and Implementation Officer with both reporting functionally to the Sharia Supervisory Board and, administratively, to the Chief Executive Officer.

Changes in Management and Management Committees

Changes in Management Personnel

1. March 2017: Yousif Alkhan, then Head of Information Technology, was named Head of Information Technology and Administration department.

2. October 2017: Abdulla Abdulaziz Ali Taleb, then Executive Senior Manager, Head of the Commercial and Financial Institutions department, was promoted to Assistant General Manager, Head of the Commercial and Financial Institutions department.

3. November 2017: Abdulla Al Abbasi, Senior Manager, then Acting Head of Product Development and Management, was appointed as the Head of Product Development and Management.

4. November 2017: Abdulhakeem Khalil Al Mutawa, then General Manager, Banking Group, was promoted to Deputy Chief Executive Officer – Banking Group, and Ravindra Anant Khot, then Chief Operating Officer, was promoted to Deputy Chief Executive Officer – Support Group.

Changes in Management Committees:

1. January 2017: The Chief Risk Officer, Head of Risk Management was appointed as a member of the Crises Management Committee.

2. January 2017: The Chief Risk Officer, Head of Risk Management was appointed as a member of the Information Technology Steering Committee.

3. August 2017: The Assistant General Manager, Head of Retail Banking was appointed as an alternate member of the Investment and Credit Committee.

4. November 2017: The Information Security Steering Committee was formed and included the following members:

- Deputy Chief Executive Officer, Support Group - Chairman
- Chief Risk Officer, Head of Risk Management - Vice chairman
- Deputy Chief Executive Officer, Banking Group - Member
- Assistant General Manager, Head of Retail Banking - Member
- Assistant General Manager, Head of Information Technology and Administration - Member
- Head of Legal and Company Secretary - Member
- Acting Head of Internal Audit - Member
- Head of Financial Control - Member
- Head of Banking Operations - Member
- Head of Human Resources - Member
- Head of Compliance and AML, Compliance Officer - Member
- Information Security and Compliance Manager, Risk Management - Member
- Information Security and Compliance Officer, Risk Management – Secretary

Code Of Ethics And Business Conduct

Ithmaar Bank's Code of Ethics and Business Conduct applies to members of the Board, as well as executive management, officers, employees, agents, consultants, and others, when they are representing or acting for Ithmaar Bank.

The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to Ithmaar Bank's policies. Any waiver of the Code of Ethics and Business Conduct for a Director or executive officer may be granted only by the Board or the appropriate Board committee and must be promptly disclosed to the shareholders.

The employment of relatives of approved persons is covered under the Human Resource Policy which requires the employee to declare to the Human Resources Department the relationship (father, mother, brother, sister, husband or wife) with any approved persons at the time of recruitment and/or subsequently, as appropriate. The employees will be given a grace period of one year so one or more of the relatives leave the Bank and exceptions, if any, require the approval of the Chief Executive Officer.

Risk Management

Ithmaar Bank has in place a comprehensive Enterprise Wide Risk Management Framework in place addressing all activities and commensurate to the business operations and risk appetite of the Bank. The Risk Management Framework plays a pivotal role in protecting the shareholder's and customer's interests and is accorded paramount importance by the Board and the management.

The Risk Management Culture emanates at the level of Board of Directors who establish the risk appetite and tolerance levels in line with the business strategy. The risk management framework is detailed in the Risk Charter and the various risk management policies which include the approach and methodology for the management of various risks. The risk appetite and risk policies are periodically reviewed to maintain their relevance and alignment with the business strategy and prevailing market conditions, and complies with the guidelines of CBB.

Risk Management in Ithmaar Bank is considered a collective responsibility and hence the risk management culture is effectively communicated across the organization. Ithmaar Bank has an effective risk governance structure enabling the effective monitoring and management of risks across all business and support activities. The Board is assisted by the Audit Governance and Risk Management Committee which meet periodically to oversee the implementation of the risk framework and management of the same. However the Board retains ultimate responsibility for the effective implementation and functioning of the risk management framework and thereby approves all risk management policies. The Audit Governance and Risk Management Committee is supported by an independent Risk Management Department headed by the Chief Risk Officer which is responsible for implementing the Board-approved risk management framework in close coordination with the senior management and all other relevant departments.

The Risk management framework also encapsulates a robust monitoring and reporting process wherein the Risk Management Department monitors risk parameters on an ongoing basis against the Board approved limits and tolerance levels and presents the same to the management and the Board.

Additional information on the risk framework and the approach and methodology of managing each dimension of risk is detailed in the Public Disclosures section.

CORPORATE GOVERNANCE CONTINUED

Risk Management Continued

Compliance, Anti-Money Laundering and Internal Controls

Compliance

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that Ithmaar Bank may suffer as a result of its failure to comply with the requirements of relevant laws and regulations.

Compliance risk is managed through the Compliance Management Policy which provides for the assessment of compliance risks, implementation of controls, monitoring and testing the compliance status of Ithmaar, the independence of the compliance unit and reporting of compliance related matters.

Ithmaar Bank's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations. The Compliance Officer ensures that the Bank's management and personnel are aware of the applicable regulatory requirements, and implications thereof, in order to achieve a consistently high level of compliance across the bank's operations. Each of Ithmaar Bank's subsidiaries also employs local compliance officers, if applicable, to ensure adherence to local requirements and regulatory issues. Consolidated reports are prepared for the Board's review.

CUSTOMER COMPLAINT PROCEDURES

A formal customer complaints procedure is in place, in line with the requirements of the Central Bank of Bahrain (CBB). A dedicated customer complaints unit and officer is responsible for handling the management of complaints. Contact details of the complaints unit are published at all branches and on Ithmaar Bank's website. All customer complaints are promptly resolved up to the best satisfaction of the customers.

ANTI-MONEY LAUNDERING

It is Ithmaar Bank's policy to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities.

For this purpose, the Bank has defined strict policies and procedures in compliance with the Financial Crimes Regulations issued by the CBB. These policies and procedures apply to all employees, branches and offices of the Bank.

Ithmaar Bank has adopted specific initiatives and measures to facilitate implementation of these policies and procedures. These include the appointment of a Money Laundering Reporting Officer (MLRO), who is empowered with sufficient mandate to implement the Bank's Anti-Money Laundering (AML) programmes. The MLRO independently enforces the AML policies and reports any incidents to the Board of Directors and/or the applicable regulatory authorities. All employees undergo compulsory AML trainings with regular refresher courses. The AML and Know Your Customer (KYC) framework incorporates the following four key elements: customer acceptance, customer identification procedures, transaction monitoring and risk management.

INTERNAL CONTROLS

The Internal Control Framework of the Bank is overseen by the Board Audit Governance and Risk Management Committee (AGRMC). The Bank has a multi-faceted internal control framework in terms of the following:

- Detailed operational policies and procedures detailing the controls to be adopted for the various processes in place.
- Clear segregation of duties to ensure there are no lapses in controls with adequate monitoring of processes.
- Robust Operational Risk Management Framework defining the methodologies for identification, measurement and monitoring of operational risks.
- Independent Internal Audit of all functions to measure the adequacy of internal controls across various processes and systems.
- Detailed Compliance Testing program to ensure that the provisions of CBB in terms of high level controls and operational requirements are adequately adhered to.

All processes and systems are evaluated on an ongoing basis by the concerned process owners and by the Risk Management through the Risk Control Self-Assessment and Internal Audit departments for any possible enhancements of controls from an audit perspective.

Any instances of control failures are immediately investigated by a cross functional committee of business and control functions to evaluate the need for further strengthening on controls across processes and functions. The AGRMC actively monitors the Internal Control Framework of the Bank based on the observations of the Internal Control, Risk Management, Compliance and Internal Audit departments.

FUNDS UNDER MANAGEMENT

FUNDS UNDER MANAGEMENT

Funds Under Management

As a commercial financial institution, a fundamental objective of the Bank is to act as a financial intermediary, channelling funds between deficit and surplus agents, for economic benefits. This is usually done through pooling monetary resources from Investment Account Holders (IAH), investing them in the market, and sharing the profits with IAHs at predetermined ratios and conditions set out in the agreements. This activity is known as Funds Under Management (FUM).

STRUCTURE OF THE FUNDS

The Bank provides three types of FUMs, namely Un-restricted Investments Accounts (URIA), Restricted Investments Accounts (RIA), and Collective Investment Undertakings (CIU).

I. Un-restricted Funds (URIA)

In the case of URIA accounts, the Bank as Mudarib (investment manager) is authorised by the Investment Account Holders (IAHs) to invest their funds in any manner which the Bank deems appropriate, without laying down restrictions as to where, how, and for what purpose their contribution amounts should be invested. All URIA funds are accounted for as 'on' balance sheet items. These funds are open for the public (natural persons and corporates including financial institutions) provided they satisfy the Bank's Know Your Customer (KYC) requirements.

As of 31 December 2017, the Bank operated URIA funds are as follows:

- General Modaraba
- Special Modaraba

II. Restricted Funds (RIA)

In the case of RIA accounts, the Bank as the Mudarib is restricted by the IAHs with regard to the use of their funds - where, how, for what period, and for what purpose their contribution amounts are invested. Such features are required to be agreed between the parties at the time of contracting (such as signing the Modaraba and/or Agency agreements) so as to formalise the relationship. RIAs funds are accounted for as 'off' balance sheet items as the Bank has no discretion on the utilisation of funds in case of RIA funds. As per the CBB's instructions, all future RIA funds shall be structured as CIUs.

The funds managed by the Bank are mainly in real estate and private equity.

These are subject to various risks including:

- Foreign exchange risk as a result of fluctuating currency exchange rates.
- Liquidity risk due to the nature of the holdings in those funds being not marketable nor listed on any security exchange platforms.
- Market risk as a result of changing market conditions, including demand and price changes.
- Economic risk due to changes in the economic climate.
- Credit risk of parties with whom the Fund conducts business and may also bear the risk of settlement default.
- Risks of changes in government policy, including issuing necessary approvals.
- The value of investments in real estate and/or the rental income derived from them will fluctuate as property values and rental incomes rise and fall.
- Investments in real estate may be affected by changes in the general economic climate, competition on rental rates, the financial standing of tenants, the quality of maintenance, insurance and management services and changes in operational costs.
- Investments in real estate which require development or refurbishment works may also entail risks associated with construction delays, cost overruns and an inability to rent either at all or at satisfactory rental levels following completion of the development or refurbishment works.
- The value of the investments may be affected by uncertainties, such as political developments, changes in governmental policies, taxation, currency repatriation restrictions, and restrictions on foreign investment in some or all of the countries in which the Fund may be directly or indirectly invested.
- The regulatory supervision, legal infrastructure and accounting, auditing and reporting standards in emerging markets may not provide the same degree of protection or information as would generally exist in more mature or developed markets.
- Risks from uncertainties such as political or diplomatic developments, social instability, changes in government policies, taxation, and interest rates and other political and economic developments in legislation, in particular changes in legislation relating to the right of, and level of, foreign ownership.
- Risks outside control of funds, including labour unrest, civil disorder, war, subversive activities, sabotage, fires, floods, acts of God, explosions or catastrophes.

The specific risks for each fund is detailed in the respective prospectus. Ithmaar Bank discloses regular updates related to individual funds on its corporate website www.ithmaarbank.com

III. Collective Investment Undertakings (CIU)

CIU have the following features:

The collective capital raised from the public or through private placement, including investments seeded by the operator, is invested in financial instruments and other assets which operate on the basis of risk-spreading as appropriate, the holdings of which may be repurchased or redeemed.

These funds are structured in accordance with relevant CIU rules issued by CBB.

All investors are required to meet the KYC requirements as per CBB rules.

RISK AND REWARD

In accordance with the principles of Islamic Sharia, all FUMs are managed on a profit and loss sharing basis with the IAH bearing all risks except for gross negligence and misconduct.

The profit or loss of a FUM is determined using the accounting policies normally applied by the Bank. The distribution of the profit or loss may either be on a limited or continuous basis as follows:

Specific Term

The IAH invests for a specific term, and profits/losses are accounted for at the time the Fund is liquidated (or staged liquidation) and the capital is returned to the IAHs along with any profits/losses.

Open Term

The IAH may invest for an unspecified terms (such as Savings Accounts), and profits are accounted for on a periodical basis during the Modaraba period. URIA funds are not subject to administration fees.

In case of RIA and CIU, specific expenses that may arise in relation to the launching of a Modaraba fund and in employment of funds may be charged against the gross revenue of that Modaraba, provided this is set out in the related Modaraba agreement. Audit and legal fees, documentation and printing charges are all examples of expenses that may be charged to the Modaraba. Distributable profit is calculated after all permitted expenses have been deducted.

The Bank applies appropriate income smoothening techniques to ensure that profits are fairly distributed to the IAHs, both current and future. These include Profit Equalisation Reserves and Investment Risk Reserves.

REDEMPTIONS

All funds are redeemed on their respective maturities. In special circumstances, the Bank may allow early withdrawals by either finding a purchaser for the contribution, or by purchasing the IAH's contribution at prevailing market prices and provided such exposure does not cause any violations of regulatory or internal limits.

FIDUCIARY OBLIGATIONS

Although the IAH is fully responsible for risks associated with his/her investments in a FUM, the Bank is bound by its fiduciary obligation and duty of care to safeguard the assets of the IAHs. In this respect, the Bank subscribes to the following guiding principles issued by the Islamic Financial Services Board (IFSB):

- Aspire to the highest standards of truthfulness, honesty and fairness in all its statements and dealings, and treat its customers fairly
- Exercise due care and diligence in all its operations, including the way it structures and offers its products and provides financing, with particular regard to Sharia compliance, and to the thoroughness of research and risk management
- Ensure that it has in place the necessary systems and procedures, and that its employees have the necessary knowledge and skills, to manage FUMs in accordance with this policy and other regulatory rules
- Take steps to ensure that it understands the nature and circumstances of its IAHs so that it offers those products most suitable for their needs, as well as offering financing only for Sharia-compliant projects
- Provide clear and truthful information both in any public document issued as well as to its actual and prospective clients, both during the sales process and in subsequent communications and reports
- Recognise the conflicts of interest between it and its clients that arise from the type of products it offers, and either avoid or disclose and manage them, bearing in mind its fiduciary duties to IAHs as well as shareholders
- Ensure that its operations are governed by an effective system of Sharia governance and that it conducts its business in a socially responsible manner

INVESTMENT OBJECTIVES

The investment objective of the funds is to provide maximum returns to both the IAHs and the Bank in a manner that is consistent with the Modaraba agreement of the specific fund and Sharia guidelines while at the same time managing risks within predetermined levels.

FUNDS UNDER MANAGEMENT CONTINUED

GOVERNANCE OF FUNDS UNDER MANAGEMENT

The Board of Directors is responsible for ensuring that the Funds Investment Objectives are adhered to. The Board has established an Audit, Governance and Risk Management Committee, amongst its other responsibilities, to look after the interests of the IAHs. The Asset-Liability Committee (ALCO) and Investment and Credit Committee (ICC) play a pivotal role in monitoring the performance of funds. The Asset Management department is responsible for the effective management of RIA and CIU funds. Customer affairs are handled by various business units including the Retail Banking, Private Banking, and Commercial and Financial Institutions departments.

RIA and CIU funds are launched after comprehensive due diligence of the market and the needs and risk appetite of investors.

A comprehensive policy is in place which outlines processes for managing funds. All funds are reviewed independently by the Risk Management department and the Compliance department prior to their approval and launch. Once approved, these funds are utilised strictly in accordance with the fund's prospectus and terms of approval.

URIA Funds are primarily used for retail and commercial financings. The Bank diversifies the portfolio through establishing prudent limits determined by geographical areas, industry sectors, tenors, customer type, etc. The composition, characteristics and diversification of the Bank's funding structure is recorded in various risk policies.

The Profit Distribution Sheet (Modaraba Account) provides details on investment period and the Bank's share of investments in 2017 as per the terms and conditions:

Period	Bank's share (%)
Undetermined term (savings account)	60
1 month	50
3 months	45
6 months	40
9 months	38
1 year	35
18 months	33
2 years	30
30 months	28
3 years	25

The average benchmark and declared rate of return or profit rate on Profit Sharing Investment Accounts (PSIA) by maturity in percentage terms paid annually in 2017:

BD or US$	1 day	7 days	1 month	3 months	6 months	9 months	1 year	18 months	2 years	3 Years
Savings	0.10	-	-	-	-	-	-	-	-	-
General Modaraba	0.10	0.10	1.16	1.60	1.85	2.10	2.50	2.55	2.60	2.70
Special Modaraba	-	-	1.65	2.43	2.93	3.63	3.73	3.88	3.93	3.98

CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 31 December 2017

Contents

REPORT OF THE SHARIA SUPERVISORY BOARD

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. (c) for the period ended at 13 Rabi Al-Akher 1439 H, corresponding to 31 December 2017.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. (c) (the Bank) performed the following during the financial period ended at 31 December 2017:

1. Issued fatwas and Sharia resolutions related to products and activities of the Bank and followed them up through Internal Sharia Compliance Department while also guiding the different departments towards Sharia-compliant transactions.
2. Studied different mechanisms of financing, investing and different mudaraba investments and prepare its documents with the concerned departments that develop and present products.
3. Examined the books, records and transactions through the Internal Sharia Compliance Department and auditing some of their samples as per established sharia auditing standards.
4. Examined sources of income and expenditures through reviewing the consolidated statement of financial position, income statement and the Bank's overall banking activities.
5. Examined and approved periodic Sharia reports which are published by the Internal Sharia Compliance Department.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the period ended at 31 December 2017. We have also conducted the required inspection to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us.

The management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia. Our responsibility is to express an independent opinion based on our observation of Ithmaar's operations, and prepare a report.

In view of the above the Sharia Supervisory Board hereby resolves as follows:

i: With regard to the Bank business in general:

a. Ithmaar's overall operations and activities were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.

b. Gains made from sources prohibited by Sharia were identified and transferred to the Charity Fund. Income generated from non-sharia compliant investments have been identified, disclosed and published to the shareholders in Note 38 of the Consolidated Financial Statements, taking into consideration that the Bank is still in the process of correcting the status of these investment according to the Sharia Board instructions.

c. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.

REPORT OF THE SHARIA SUPERVISORY BOARD CONTINUED

ii: What has been transferred to the Bank after restructuring:

The Sharia Supervisory Board has reviewed the structure of the Bank, its projects and its subsidiaries following the establishment of the Holding Company and the setting up of Ithmaar Bank B.S.C. (c) as subsidiary (for commercial operations in Bahrain and Pakistan) and to ensure compliance with its Fatwas and directions, the Sharia Supervisory Board has reviewed the income statement of Ithmaar for the period ended 31 December 2017 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities, according to Note 38, the Sharia Supervisory Board guides the shareholders of Ithmaar to dispose of impermissible earnings which has been calculated, in the current period's financial statements, at 7.73 Bahraini fils per share.

We pray to Almighty Allah to grant success to Ithmaar and whom are responsible and grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

His Eminence Shaikh Abdulla Al Manee'a
Chairman

His Eminence Shaikh Mohsin Al-Asfoor
Member

His Eminence Shaikh Dr. Nizam Yacooby
Member

His Eminence Shaikh Dr. Osama Bahar
Member

Manama - Kingdom of Bahrain
22 February 2018

DIRECTORS' REPORT

For the period ended 31 December 2017

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C. (C) ("the Bank") for the period ended 31 December 2017, together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the period ended.

Principal activities

Ithmaar Bank B.S.C. (C) (the "Bank") was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the "CBB") on 14 August 2016. As part of reorganization of erstwhile Ithmaar Bank B.S.C (now Ithmaar Holding B.S.C.), the identified assets & liabilities were transferred to the Bank on 2 January 2017.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking and private banking.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2017, together with the consolidated results for the period ended is set out in the accompanying consolidated financial statements.

The Group has reported a net profit of BD1.6 million for the period ended 31 December 2017 attributable to the equity shareholders of the Group. Total assets at 31 December 2017 amounted to BD3,242 million. This is the first year of the Bank's operation as a new entity and hence no comparative information is available.

The consolidated Capital adequacy ratio of the Bank under Basel III as at 31 December 2017 was 13.92% as compared to a minimum regulatory requirement of 12.5%. The Group's risk weighted exposures and eligible capital are set out in note 36 of the accompanying consolidated financial statements.

Directors

The following served as Directors of the Bank during the period ended 31 December 2017:

HRH Prince Amr Mohamed Al Faisal (Chairman)

Mr. Abdel Hamid Abo Moussa

Sheikh Zamil Abdullah Al-Zamil

Mr. Nabeel Khalid Kanoo

Mr. Mohammed Bucheerei

Mr. Abdulellah Ebrahim Al-Qassimi

Mr. Omar Abdi Ali

Dr. Amani Khaled Bouresli

Mr. Abdulshakoor Hussain Tahlak

Mr. Mohammed Elkhereiji (Appointed with effect from 16 October 2017)

Tunku Yaacob Khyra (Resigned with effect from 11 January 2017)

Mr. Khalid Abdulla-Janahi (Resigned with effect from 11 June 2017)

Sheikha Hissah Bint Saad Al-Sabah (Resigned with effect from 20 August 2017)

DIRECTORS' REPORT CONTINUED

For the period ended 31 December 2017

Directors' sitting fees

Directors' sitting fees for 2017 amounted to BD127,803.

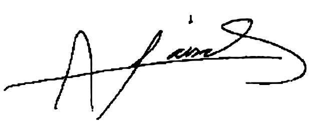
Dividend

No dividend has been proposed for 2017.

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2018.

By order of the Board of Directors



HRH Prince Amr Mohamed Al Faisal

Chairman

27 February 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ithmaar Bank B.S.C.(C)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Ithmaar Bank B.S.C. (c) (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2017 and the related consolidated statements of income, changes in owners' equity, cash flows, and changes in restricted investment accounts for the period from 12 May 2016 till 31 December 2017 (the "period"), and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Sharia rules and principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017 and the results of its operations, its cash flows, changes in owners' equity and changes in restricted investment accounts for the period then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Report on regulatory requirements and other matters

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

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

(ii) the financial information contained in the directors' report is consistent with the consolidated financial statements;

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

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

The Bank has also complied with the Islamic Sharia rules and principles as determined by the Sharia Supervisory Board of the Group.

PricewaterhouseCoopers

Partner's Registration No: 201
27 February 2018
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	At 31 December 2017 (Audited)
ASSETS		
Cash and balances with banks and central banks	3	263,819
Commodity and other placements with banks, financial and other institutions	4	98,545
Murabaha and other financings	5	1,808,841
Musharaka financing		139,252
Sukuk and investment securities	6	617,156
Restricted investment accounts	7	27,183
Assets acquired for leasing	8	131,106
Investment in real estate		3,994
Other assets	9	69,150
Fixed assets	10	22,252
Intangible assets	11	61,121
Total assets		**3,242,419**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY		
Customers' current accounts	12	676,888
Due to banks, financial and other institutions	13	434,635
Due to investors	14	719,303
Other liabilities	15	147,551
Total liabilities		**1,978,377**
Equity of unrestricted investment accountholders	16	1,064,898
Minority interest	17	44,541
Total liabilities, equity of unrestricted investment accountholders and minority interest		**3,087,816**
Share capital	18	100,000
Reserves		31,902
Retained earnings		22,701
Total owners' equity		**154,603**
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		**3,242,419**

These consolidated financial statements were approved by the Board of Directors on 27 February 2018 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Dr. Amani Khaled Bouresli
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 38 on pages 58 to 88 form an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Period ended 31 December 2017 (Audited)
INCOME		
Income from unrestricted investment accounts		62,190
Less: return to unrestricted investment accounts and impairment provisions		(33,214)
Group's share of income from unrestricted investment accounts as a Mudarib		28,976
Income from murabaha and other financings	21	60,915
Income from other investments	22	43,912
Other income	23	16,921
Total income		**150,724**
Less: profit paid to banks, financial and other institutions – net		(61,525)
Operating income		**89,199**
EXPENSES		
Administrative and general expenses	24	(61,023)
Depreciation and amortization	10,11	(9,145)
Total expenses		**(70,168)**
Net income before provision for impairment and overseas taxation		**19,031**
Provision for impairment – net		(3,010)
Net income before overseas taxation		**16,021**
Overseas taxation	27	(9,783)
NET PROFIT FOR THE PERIOD		**6,238**
Attributable to:		
Equity holders of the Bank		1,582
Minority interests	17	4,656
		6,238
Basic and diluted earnings per share	19	Fils 1.58

These consolidated financial statements were approved by the Board of Directors on 27 February 2018 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Dr. Amani Khaled Bouresli
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 38 on pages 58 to 88 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the period ended 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

		Reserves							
	Share capital	Statutory reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Share premium	Total reserves	Retained earnings	Total owners' equity
Balances transferred as part of reorganization (2 January 2017)	100,000	-	5,428	797	(8,823)	40,280	37,682	21,277	158,959
Net income for the period	-		-	-	-		-	1,582	1,582
Transfer to statutory reserve	-	158	-	-	-	-	158	(158)	-
Movement in fair value of sukuk and investment securities	-	-	(1,609)	-	-	-	(1,609)	-	(1,609)
Movement in fair value of investment in real estate	-	-	-	93	-	-	93	-	93
Foreign currency translation adjustments	-	-	(4)	-	(4,418)	-	(4,422)	-	(4,422)
At 31 December 2017 (Audited)	100,000	158	3,815	890	(13,241)	40,280	31,902	22,701	154,603

The notes 1 to 38 on pages 58 to 88 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Period ended 31 December 2017 (Audited)
OPERATING ACTIVITIES		
Net income before overseas taxation		16,021
Adjustments for:		
Depreciation and amortization	10,11	9,145
Provision for impairment – net		3,010
Gain on sale of fixed assets	23	(205)
Operating income before changes in operating assets and liabilities		27,971
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		(3,489)
Changes in operating assets and liabilities:		
Murabaha and other financings		(689)
Musharaka financing		(58,323)
Other assets		(1,893)
Customers' current accounts		65,389
Due to banks, financial and other institutions		15,094
Due to investors		39,176
Other liabilities		12,493
Increase in equity of unrestricted investment accountholders		33,260
Taxes paid		(8,570)
Net cash provided by operating activities		**120,419**
INVESTING ACTIVITIES		
Net (increase)/decrease:		
Assets acquired for leasing		(34,634)
Sukuk and investment securities		(37,007)
Purchase of fixed assets		(2,686)
Net cash used in investing activities		**(74,327)**
Foreign currency translation adjustments		(9,231)
Net increase in cash and cash equivalents		**36,861**
Cash and cash equivalents at the beginning of the period		**260,993**
Cash and cash equivalents at the end of the period	4	**297,854**

The notes 1 to 38 on pages 58 to 88 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

For the period ended 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 2 January 2017	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	At 31 December 2017
Dilmunia Development Fund I L.P.*	56,358	72	-	-	(1,641)	54,789
Shamil Bosphorus Modaraba*	2,356	-	-	-	-	2,356
European Real Estate Placements*	6,085	121	(26)	639	(635)	6,184
US Real Estate Placements*	10,388	-	-	-	(874)	9,514
TOTAL	75,187	193	(26)	639	(3,150)	72,843
FUNDS MANAGED ON AGENCY BASIS	24,601	-	-	-	(737)	23,864
	99,788	193	(26)	639	(3,887)	96,707

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 38 on pages 58 to 88 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period ended 31 December 2017

1. INCORPORATION AND ACTIVITIES

Ithmaar Bank B.S.C. (C) (the "Bank") was incorporated in the Kingdom of Bahrain on 12 May 2016 as a Closed Joint Stock entity and registered with the Ministry of Industry & Commerce under commercial registration number 99336-1 and was licensed as an Islamic retail bank by the Central Bank of Bahrain (the "CBB") on 14 August 2016.

Ithmaar Holding B.S.C.(formerly Ithmaar Bank B.S.C.) ["Ithmaar"], a Category 1 investment firm licensed and regulated by the Central Bank of Bahrain (CBB) is the immediate parent company of the Bank. Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

Pursuant to the reorganisation of Ithmaar at its Extraordinary General Meeting (EGM) held on 28 March 2016 where shareholders approved to restructure Ithmaar Bank B.S.C. into a holding company and two subsidiaries to segregate core and non-core assets, the core assets and liabilities of Ithmaar were transferred to the Bank along with control over the below mentioned subsidiaries on 2 January 2017. Since Ithmaar remained the ultimate parent before and after this reorganization, this transaction has been accounted as a business combination under common control and the related assets and liabilities have been transferred at their book values. No financial transactions were incurred by the Bank between the date of incorporation 12 May 2016 and 1 January 2017. These financial statements cover the period from date of incorporation (12 May 2016) to 31 December 2017. This is the first period of the Company's operation as a new entity and hence no comparative information is available.

Subsequent to reorganization, the transfer of the legal ownership of certain assets and liabilities from Ithmaar to the Bank are in progress.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

The Bank's activities are regulated by the CBB and are subject to the supervision of Shari'a Supervisory Board.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment accountholder authorises the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank's head office, 16 commercial branches in Bahrain and its following principal subsidiary companies:

	% Owned			
	Voting	Economic	Country of Incorporation	Principal business activity
Faysal Bank Limited	67	67	Pakistan	Banking
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) [under Voluntary Liquidation]	63	50	Kingdom of Bahrain	Mortgage finance

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

2. SIGNIFICANT GROUP ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared under Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the period ended 31 December 2017 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 38.

The consolidated financial statements comprise the financial information of the Group for the period ended 31 December 2017.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

(i) New accounting standards: Issued but not yet effective

FAS 30 - Impairment, credit losses and onerous commitments

FAS 30 Impairment, credit losses and onerous commitments was issued in November 2017 replacing FAS 11 – 'Provision and Reserves'. It intends to define the accounting principles for impairment and credit losses (including expected credit losses) to be in line with ever-changing global best practices, as well as, provisions needed against anticipated losses on onerous commitments. The effective date for adoption is 1 January 2020.

As per CBB circular dated 29 November 2017 (ref: EDBS/KH/C/57/2017) all Islamic Banks are required to implement the said standard with effect from 1 January 2018.

Implementation of FAS 30 included significant judgements and assumptions on various matters which includes probability of default for financing portfolios, loss given default, exposure at default for both funded and unfunded exposures, forward looking adjustments, staging guidelines, movement between stages and low credit risk expedient.

The standard has significant impact on the consolidated financial statements of the Group and if adopted as of 1 January 2017, would result in additional impairment provisions in the range of BD41 to BD49 million.

(ii) Basis of preparation

The consolidated financial statements are prepared on a historical cost convention except for investments carried at fair value through income statement and equity and investment in real estate.

(iii) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, the CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards (IFRS).

(iv) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Subsidiaries, including Special Purpose entities that are controlled by the Bank, are consolidated from the date on which the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(a) Basis of consolidation (continued)

Subsidiaries (continued)

obtains control and continue to be so consolidated until the date such control ceases. For business combinations involving entities under common control, the directors of the Group are responsible for determining a suitable accounting policy for such business combinations. The directors have elected to use the uniting of interests method to account for business combinations involving entities under common control and to account for such business combinations prospectively, under the predecessor basis of accounting. Under the uniting of interests method, there is no requirement to fair value the assets and liabilities of the acquired entities and hence no goodwill arises on consolidation. The difference between the cost of the acquisition and the Group's share of the issued and paid up share capital of the acquired entity is recognised as share premium in equity.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners equity.

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts.

Intra-Group balances and minority interest

The consolidated financial statements include the assets, liabilities and results of operations of the Bank, its subsidiary companies after adjustment for minority interest and equity of unrestricted investment accountholders managed by the Group. All significant intra-group balances and transactions have been eliminated. The financial statements of the subsidiaries are prepared on the same reporting periods as the Bank, using consistent accounting policies.

(b) Foreign currency transactions and balances

Functional and presentation currency

Items included in the consolidated financial statement of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain sukuk and investment securities are included in investments fair value reserve.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;
2. Income and expenses for each income statement are translated at average exchange rates; and
3. All resulting exchange differences are recognised as a separate component of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(b) Foreign currency transactions and balances (continued)
Transactions and balances (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) Accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

1. Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

2. Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPEs activities, Group's exposure to the risks and rewards, as well as its ability to make operational decisions of the SPEs.

3. Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. Management makes judgements about counterparty's financial situation and the net realisable value of any underlying assets. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

4. Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Group to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding and estimated inflows from disposal of assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) **Summary of significant accounting policies** (continued)

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(e) Murabaha and other financings

Murabaha financing is stated at cost less allowance for doubtful receivables.

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

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate, with a market value equal to or in excess of the principal amount financed under the respective financing agreement. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Specific provision is made when the management consider that there is impairment in the carrying amount of Murabaha and other financings.

In addition to specific provision, the Group also assesses impairment collectively for losses on financing facilities that are not individually significant and where there is not yet objective evidence of individual impairment. General provision is evaluated at each reporting date.

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Specific provision is made when the management consider that there is impairment in the carrying amount of Musharaka financing.

(g) Investments

1. Investments carried at amortised cost

Sukuk and Debt-type instruments are carried at amortised cost where the investment is managed on a contractual yield basis and their performance evaluated on the basis of contractual cash flows. These investments are measured at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

Equity-type instruments are investments that do not exhibit the feature of debt type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Equity-type investments carried at fair value through equity are those equity instruments which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity; these are designated as such at inception. Regular-way purchases and sales of these investments are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset.

These investments are initially recognised at cost plus transaction costs. These investments are subsequently re-measured at fair value and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity under "Investments fair value reserve", until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) **Summary of significant accounting policies** (continued)

(g) Investments (continued)

2. Investments carried at fair value through equity (continued)

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as financial assets carried at fair value through equity, a significant or prolonged decline in fair value of the security below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the investment carried at fair value through equity, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the consolidated income statement is removed from the equity and recognised in the consolidated income statement. Impairment losses on equity instruments previously recognised in the consolidated income statement are not subsequently reversed through the consolidated income statement.

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealers margin. These investments are recognised on the acquisition date at cost including the direct expenses related to the acquisition. At the end of each reporting period, investments are re-measured at their fair value and the gain/loss is recognised in the consolidated income statement.

4. Restricted investment accounts

Investment in restricted investment accounts is initially recorded at cost and subsequently re-measured at fair value. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment accountholders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement.

5. Investment in real estate

All properties held for rental income or for capital appreciation purposes or both are classified as investment in real estate. Investment in real estate held for capital appreciation are initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement. The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

Investment in real estate held for rental purposes are stated at cost less accumulated depreciation. Development properties are stated at lower of cost or estimated net realizable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) Investments (continued)

6. Investment in mudaraba

Mudaraba investments are recorded at cost. Decline in the value of investment which is not temporary is charged directly to the consolidated income statement.

7. Fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

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

(h) Assets acquired for leasing (Ijarah)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

A provision for doubtful receivable is made if, in the opinion of the management, the recovery of outstanding rentals are doubtful.

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are determined by comparing proceeds with carrying amounts.

(j) Intangible assets

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for impairment on annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(j) Intangible assets (continued)

1. Goodwill (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Negative goodwill resulting from the acquisition of business is reported in the consolidated income statement.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

(k) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, the subsidiaries incorporated in tax jurisdictions pay tax as per local regulations.

(l) Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(m) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction.

For variable remuneration, a provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

(n) Due to investors

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors"

(o) Equity of unrestricted investment accountholders

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The assets included in the equity of unrestricted investment accountholders are measured on the same basis of various category of the assets as set out above. The amount appropriated to investment risk reserve are out of the total income from URIA assets before charging any expense relating to the management fee, mudarib share of profit, profit equalization reserve and profit to investment accountholders. Profit equalisation reserve is created to maintain a certain level of return on investments for investment accountholders.

(p) Restricted investment accounts

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. The assets included in the restricted investment accounts are recorded at Net Asset Value (NAV).

(q) Treasury shares

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(r) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 10% of the Group's net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

(s) Revenue recognition

1. Profit participation and management fees

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(s) Revenue recognition (continued)

2. Profit on Murabaha and other financings

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Dividend income

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

7. Fees and commissions

Fees and commissions (including banking services) are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

(t) Profit allocation between group and investment accountholders

The Group maintains separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting impairment provisions, profit equalization reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Impairment provision is made when the management considers that there is impairment in the carrying amount of assets financed by the investment account.

(u) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	63,686	824	64,510
Cash and balances with banks and central banks	173,386	25,923	199,309
	237,072	26,747	263,819

4. COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	98,545	-	98,545
Less: Provisions	-	-	-
	98,545	-	98,545

Cash and cash equivalents for the purpose of cash flow statement are as under:

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	237,072	26,747	263,819
Commodity and other placements with banks, financial and other institutions - net	98,545	-	98,545
Less: Placement maturing after ninety days	-	-	-
Less: Balances with central bank relating to minimum reserve requirement	(63,686)	(824)	(64,510)
	271,931	25,923	297,854

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5. MURABAHA AND OTHER FINANCINGS

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	1,361,141	562,496	1,923,637
Less: Provisions	(108,323)	(6,473)	(114,796)
	1,252,818	**556,023**	**1,808,841**

Other financings represents conventional loans and advances totalling BD634.4 million made by a subsidiary of the Bank.

Total provision of BD114.8 million includes general provision of BD4.7 million.

6. SUKUK AND INVESTMENT SECURITIES

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement			
Held for trading			
Debt-type instruments – unlisted	114,945	-	114,945
	114,945	**-**	**114,945**
Investment securities at fair value through equity			
Equity-type securities – listed	20,837	-	20,837
Equity-type securities – unlisted	2,323	-	2,323
	23,160	**-**	**23,160**
Provision for impairment	(4,375)	-	(4,375)
	18,785	**-**	**18,785**
Investment securities carried at amortised cost			
Sukuk – unlisted	6,570	87,798	94,368
Other debt-type instruments – listed	2,098	-	2,098
Other debt-type instruments – unlisted	394,193	-	394,193
	402,861	87,798	490,659
Provision for impairment	(7,233)	-	(7,233)
	395,628	**87,798**	**483,426**
	529,358	**87,798**	**617,156**

Sukuk and investment securities include conventional investments totalling BD528.7 million made by a subsidiary of the Bank.
The fair value of investment securities carried at amortised cost was BD491 million and these are tradable.

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6. SUKUK AND INVESTMENT SECURITIES (continued)

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2017				
Investment securities at fair value through income statement				
Debt-type instruments	-	114,945	-	114,945
Investment securities at fair value through equity				
Equity securities	18,511	274	-	18,785
	18,511	115,219	-	133,730

There was no movement between level 1 and level 2 during the period
Total gains for the period included in consolidated income statement for 31 December 2017 BD2.4 million.

7. RESTRICTED INVESTMENT ACCOUNTS

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Investment in restricted investment accounts	30,819	2,828	33,647
Less: provisions	(6,464)	-	(6,464)
	24,355	**2,828**	**27,183**

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8. ASSETS ACQUIRED FOR LEASING

	31 December 2017		
	Cost	Accumulated depreciation	Net book amount
Property & Equipment	147,676	(16,570)	131,106

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2017
Relating to owners	2,464
Relating to unrestricted investment accounts	128,642
	131,106

9. OTHER ASSETS

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	37,311	15,102	52,413
Due from related parties	3,916	-	3,916
Taxes – deferred	8,476	-	8,476
Taxes – current	10,338	-	10,338
Assets acquired against claims	6,514	-	6,514
	66,555	15,102	81,657
Provision for impairment	(7,887)	(4,620)	(12,507)
	58,668	10,482	69,150

10. FIXED ASSETS

	Relating to owners		
	31 December 2017		
	Cost	Accumulated depreciation	Net book amount
Land and building	16,756	(4,868)	11,888
Leasehold improvements	13,066	(8,208)	4,858
Furniture and equipment	26,306	(21,206)	5,100
Motor vehicles	1,141	(735)	406
	57,269	(35,017)	22,252

Depreciation charge for the period ended 31 December 2017 amounted to BD2.8 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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11. INTANGIBLE ASSETS

	Relating to owners				
	31 December 2017				
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	33,112	-	(3,205)	(3,480)	26,427
Customer relations	42,814	(23,166)	-	(4,430)	15,218
Core deposits	58,641	(33,355)	-	(7,662)	17,624
Others	12,113	(10,261)	-	-	1,852
	146,680	(66,782)	(3,205)	(15,572)	61,121

Amortisation charge for the period ended 31 December 2017 amounted to BD6.3 million.
The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2017
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	23,589
Faysal Bank Limited	2,838
	26,427

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) calculation using cash flow projections from financial budgets approved by the Group's senior management covering a three year period and Fair Value Less Cost to Sell (FVLCTS). The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

12. CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts balances includes balance of BD81.2 million from one customer.

13. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	399,937	15,220	415,157
Due to financial and other institutions	19,478	-	19,478
	419,415	15,220	434,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017
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13. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS (continued)

Due to banks, financial and other institutions include balances totalling BD162.9 million from two counterparties and having contractual maturity ranging to up to one month.

Due to banks, financial and other institutions include conventional deposits totalling BD173.2 million, accepted by a subsidiary of the Bank.

At 31 December 2017, there were collateralized borrowings in aggregate BD44.4 million.

14. DUE TO INVESTORS

	Relating to owners
	31 December 2017
Due to corporate institutions	372,406
Due to individuals	320,279
Due to financial institutions	26,618
	719,303

Due to investors represent conventional deposits accepted by a subsidiary of the Group.

15. OTHER LIABILITIES

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	85,293	40,149	125,442
Due to related parties	22,109	-	22,109
	107,402	40,149	147,551

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017
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16. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	Notes	31 December 2017
Cash and balances with banks and central banks	3	26,747
Murabaha and other financings	5	556,023
Musharaka financing		135,374
Sukuk and investment securities	6	87,798
Restricted investment accounts	7	2,828
Assets acquired for leasing	8	128,642
Other assets	9	10,482
Due from the Group (net)		280,093
		1,227,987
Customers' current accounts		(107,720)
Due to banks, financial and other institutions	13	(15,220)
Other liabilities	15	(40,149)
Equity of unrestricted investment accountholders		**1,064,898**

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to BD11.1 million.

Other liabilities include profit equalization reserve amounting to BD6.6 million and investment risk reserve amounting to BD6.8 million.

The average gross rate of return in respect of unrestricted investment accounts was 5% for 31 December 2017 of which 2.9% was distributed to the investors and the balance was either set aside as provisions, management fees (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

17. MINORITY INTEREST

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries

	31 December 2017	
	Minority %	
Faysal Bank Limited	33	42,971
Sakana Holistic Housing Solutions B.S.C. (C)	50	1,570
		44,541

Minority interest in the consolidated income statement of BD4.7 million represents the minority shareholders' share of the earnings of these subsidiaries for the respective years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

18. SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	7,540,000	754,000
Issued and fully paid		
Total outstanding as at 2 January 2017	1,000,000	100,000
At 31 December 2017 (Audited)	**1,000,000**	**100,000**

The Bank's total issued and fully paid share capital at 31 December 2017 comprises 1,000,000,000 shares at 100 fils per share amounting to BD100,000,000. The Chief Executive Officer owns one share. The share capital of the Bank is denominated in Bahraini Dinars.

The Bank grants shadow shares to employees calculated based on the net asset value of the Bank since the Bank is not listed. The number of shadow shares granted to employees as of 31 December 2017 was 4.2 million of which the unvested shadow shares amount to 3.2 million.

19. EARNINGS PER SHARE (BASIC & DILUTED)

Earnings per share (Basic & Diluted) are calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the period.

	Period ended 31 December 2017
Net loss attributable to shareholders (BD '000)	1,582
Weighted average number of issued and fully paid up ordinary shares ('000)	1,000,000
Earnings per share (Basic & Diluted) - Fils	**1.58**

Earnings per share on non-sharia compliant income and expenses is included under note 38.

20. INCOME FROM RESTRICTED INVESTMENT ACCOUNTS AS A MUDARIB

Income from restricted investment accounts comprises profit participation as a Mudarib and investment management fees net of contribution made to certain restricted funds.

21. INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners
	Period ended 31 December 2017
Income from murabaha financing	11,042
Income from other financings	49,873
	60,915

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

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22. INCOME FROM OTHER INVESTMENTS

	Relating to owners period ended 31 December 2017
Income from investment securities at amortised cost	30,411
Income from investment securities at fair value through equity	3,077
Income from investment securities at fair value through income statement	9,878
Income from investment in real estate	546
	43,912

23. OTHER INCOME

	Relating to owners period ended 31 December 2017
Income from banking services	17,310
Foreign exchange income	(527)
Other income	138
	16,921

24. ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners period ended 31 December 2017
Salaries and other benefits	30,140
Office expenses	17,224
Professional fees	2,596
Other administrative expenses	11,063
	61,023

25. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017
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26. PROVISIONS

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	108,323	6,473	114,796
Musharaka financing	3,519	-	3,519
Sukuk and investment securities	11,608	-	11,608
Restricted investment accounts	6,464	-	6,464
Other assets	7,887	4,620	12,507
Intangible assets	3,205	-	3,205
	141,006	11,093	152,099

Total provisions of BD152 million includes BD6 million held as general provisions.

27. OVERSEAS TAXATION

	Relating to owners
	Period ended 31 December 2017
Current taxes	6,346
Deferred taxes	3,437
	9,783

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017
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28. SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail and Corporate banking, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.

(ii) Trading Portfolio, where the Group trades in equity deals, foreign exchange and other transactions with the objective of realizing short-term gains.

(iii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

31 December 2017

	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total
Operating income	72,668	16,257	354	(80)	89,199
Total expenses	(63,636)	(4,209)	(2,323)	-	(70,168)
Net income/(loss) before provision and overseas taxation	9,032	12,048	(1,969)	(80)	19,031
Provision and overseas taxation	(7,985)	(4,763)	(74)	29	(12,793)
Net income/(loss) for the period	1,047	7,285	(2,043)	(51)	6,238
Attributable to:					
Equity holders of the Bank	(1,143)	4,850	(2,091)	(34)	1,582
Minority interests	2,191	2,435	49	(19)	4,656
	1,048	7,285	(2,042)	(53)	6,238
Total assets	2,549,697	687,261	2,660	2,801	3,242,419
Total liabilities and equity of unrestricted investment account holders	2,844,880	198,216	179	-	3,043,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017
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28. SEGMENTAL INFORMATION (Continued)

The Group constitutes of two geographical segments which are Middle East & Africa, Asia and others.

31 December 2017

	Middle East & Africa	Asia	Others	Total
Operating income	7,557	71,062	10,580	89,199
Total expenses	(21,470)	(46,471)	(2,227)	(70,168)
Net income/(loss) before provision and overseas taxation	(13,913)	24,591	8,353	19,031
Provision and overseas taxation	(4,136)	(8,657)	-	(12,793)
Net income/(loss) for the period	(18,049)	15,934	8,353	6,238
Attributable to:				
Equity holders of the Bank	(18,142)	10,623	9,101	1,582
Minority interests	93	5,311	(748)	4,656
	(18,049)	15,934	8,353	6,238
Total assets	1,513,422	1,669,472	59,525	3,242,419
Total liabilities and equity of unrestricted investment account holders	1,411,279	1,530,857	101,139	3,043,275

29. ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. The Bank does not collect or pay Zakah on behalf of its owners and its investment accountholders.

30. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2017
Acceptances and endorsements	23,685
Guarantees and irrevocable letters of credit	261,777
Customer and other claims	117,547
	403,009

Commitments

	31 December 2017
Undrawn facilities, financing lines and other commitments to finance	680,981

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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31. CURRENCY RISK

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

As at 31 December 2017	PKR	EUR	USD
Total currency exposure	56,611	12,240	202,197
Reasonable shift	1.36%	2.47%	0.55%
Total effect on income/equity	**770**	**302**	**1,112**

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate as at 31 December 2017 as compared to the one year forward rate for the same period.

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2017	United States Dollar	Pakistan Rupee	Swiss Franc	Bahraini Dinar	Euro	UAE Dirham	Other	Total
Cash and balances with banks and central banks	33,286	109,367	141	66,164	44,325	4,779	5,757	263,819
Commodity and other placements with banks, financial and other institutions	-	30,921	-	56,316	11,308	-	-	98,545
Murabaha and other financings	575,108	648,035	-	482,837	71,313	7,045	24,503	1,808,841
Musharaka financing	-	139,252	-	-	-	-	-	139,252
Sukuk and investment securities	619	616,530	-	7	-	-	-	617,156
Restricted investment accounts	27,183	-	-	-	-	-	-	27,183
Assets acquired for leasing	1,525	-	-	129,581	-	-	-	131,106
Investment in real estate	-	3,994	-	-	-	-	-	3,994
Other assets	20,267	45,169	-	-	4	-	3,710	69,150
Fixed assets	751	20,418	-	1,083	-	-	-	22,252
Intangible assets	56,013	5,108	-	-	-	-	-	61,121
Total assets	**714,752**	**1,618,794**	**141**	**735,988**	**126,950**	**11,824**	**33,970**	**3,242,419**
Customer current accounts	57,406	384,080	-	133,586	95,106	-	6,710	676,888
Due to banks, financial and other institutions	67,218	179,633	-	23,440	40,329	124,002	13	434,635
Due to investors	45,248	664,046	-	-	2,936	-	7,073	719,303
Other liabilities	17,807	64,525	180	64,418	604	-	17	147,551
Total liabilities	**187,679**	**1,292,284**	**180**	**221,444**	**138,975**	**124,002**	**13,813**	**1,978,377**
Equity of unrestricted investment accountholders	170,273	132,854	-	761,556	215	-	-	1,064,898
Total liabilities and equity of unrestricted investment accountholders	**357,952**	**1,425,138**	**180**	**983,000**	**139,190**	**124,002**	**13,813**	**3,043,275**
Contingent liabilities and commitments	234,451	706,248	25	89,545	32,516	2,331	18,874	**1,083,990**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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32. MATURITY PROFILE

The maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	241,202	22,617	-	-	-	263,819
Commodity and other placements with banks, financial and other institutions	98,545	-	-	-	-	98,545
Murabaha and other financings	176,545	226,407	174,931	942,172	288,786	1,808,841
Musharaka financing	2,473	3,404	8,848	67,936	56,591	139,252
Sukuk and investment securities	268,559	211,212	54,883	20,924	61,578	617,156
Restricted investment accounts	-	-	-	-	27,183	27,183
Assets acquired for leasing	1,278	198	2,877	3,109	123,644	131,106
Investment in real estate	-	-	-	-	3,994	3,994
Other assets	35,794	8,714	2,837	11,132	10,673	69,150
Fixed assets	-	-	230	4,645	17,377	22,252
Intangible assets	-	-	185	2,241	58,695	61,121
Total assets	**824,396**	**472,552**	**244,791**	**1,052,159**	**648,521**	**3,242,419**
Customer current accounts	676,888	-	-	-	-	676,888
Due to banks, financial and other institutions	298,770	49,525	28,827	52,386	5,127	434,635
Due to investors	454,386	116,418	145,313	3,186	-	719,303
Other liabilities	93,729	23,154	7,630	23,038	-	147,551
Total liabilities	**1,523,773**	**189,097**	**181,770**	**78,610**	**5,127**	**1,978,377**
Equity of unrestricted investment accountholders	468,451	117,958	377,847	100,642	-	1,064,898
Total liabilities and equity of unrestricted investment accountholders	**1,992,224**	**307,055**	**559,617**	**179,252**	**5,127**	**3,043,275**
Contingent liabilities and commitments	571,889	148,886	215,830	140,399	6,986	1,083,990

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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33. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2017	Banks and Financial Institutions	Trading and Manu-facturing	Property and Cons-truction	Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	263,266	-	553	-	-	-	-	263,819
Commodity and other placements with banks, financial and other institutions	98,545	-	-	-	-	-	-	98,545
Murabaha and other financings	753,713	321,405	43,037	14,253	531,707	87,075	57,651	1,808,841
Musharaka financing	22,717	61,861	14,483	7,245	23,768	7,278	1,900	139,252
Sukuk and investment securities	588,812	27,793	-	189	-	362	-	617,156
Restricted investment accounts	-	-	27,183	-	-	-	-	27,183
Assets acquired for leasing	198	4,927	2,169	-	123,812	-	-	131,106
Investment in real estate	-	-	3,994	-	-	-	-	3,994
Other assets	35,491	-	4,092	-	10,088	-	19,479	69,150
Fixed assets	20,418	-	1,834	-	-	-	-	22,252
Intangible assets	61,121	-	-	-	-	-	-	61,121
Total assets	**1,844,281**	**415,986**	**97,345**	**21,687**	**689,375**	**94,715**	**79,030**	**3,242,419**
Customer current accounts	10,886	169,411	80,016	42,424	185,758	6,272	182,121	676,888
Due to banks, financial and other institutions	263,882	-	-	170,753	-	-	-	434,635
Due to investors	174,708	171,786	19,707	55,985	130,807	5,069	161,241	719,303
Other liabilities	71,620	-	180	-	25,812	-	49,939	147,551
Total liabilities	**521,096**	**341,197**	**99,903**	**269,162**	**342,377**	**11,341**	**393,301**	**1,978,377**
Equity of unrestricted investment accountholders	105,728	83,459	28,905	53,565	710,118	-	83,123	1,064,898
Total liabilities and equity of unrestricted investment accountholders	**626,824**	**424,656**	**128,808**	**322,727**	**1,052,495**	**11,341**	**476,424**	**3,043,275**
Contingent liabilities and commitments	352,567	417,563	16,796	11,526	6,115	24,635	254,788	**1,083,990**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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33. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

31 December 2017	Asia / Pacific	Middle East	Europe	Others	Total
Cash and balances with banks and central banks	68,038	152,141	35,966	7,674	263,819
Commodity and other placements with banks, financial and other institutions	98,545	-	-	-	98,545
Murabaha and other financings	672,298	1,120,665	5,137	10,741	1,808,841
Musharaka financing	139,252	-	-	-	139,252
Sukuk and investment securities	616,530	626	-	-	617,156
Restricted investment accounts	-	27,183	-	-	27,183
Assets acquired for leasing	-	131,106	-	-	131,106
Investment in real estate	3,994	-	-	-	3,994
Other assets	45,289	23,854	7	-	69,150
Fixed assets	20,418	1,834	-	-	22,252
Intangible assets	5,108	56,013	-	-	61,121
Total assets	**1,669,472**	**1,513,422**	**41,110**	**18,415**	**3,242,419**
Customer current accounts	426,376	150,556	90,909	9,047	676,888
Due to banks, financial and other institutions	187,551	245,921	-	1,163	434,635
Due to investors	719,303	-	-	-	719,303
Other liabilities	64,726	82,805	20	-	147,551
Total liabilities	**1,397,956**	**479,282**	**90,929**	**10,210**	**1,978,377**
Equity of unrestricted investment accountholders	132,901	931,997	-	-	1,064,898
Total liabilities and equity of unrestricted investment accountholders	**1,530,857**	**1,411,279**	**90,929**	**10,210**	**3,043,275**
Contingent liabilities and commitments	987,993	95,931	-	66	**1,083,990**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

34. RISK MANAGEMENT

Credit risk

The significant concentration of credit risk at 31 December 2017 is set out in note 33.

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Group and its unrestricted investment accountholders:

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Gross exposure			
Past due but performing financing exposures	196,062	50,812	246,874
Non performing financing exposures	123,146	58,630	181,776
	319,208	**109,442**	**428,650**
Fair value of collateral			
Past due but performing financing exposures	507,162	51,667	558,829
Non performing financing exposures	24,822	62,943	87,765
	531,984	**114,610**	**646,594**

Included in the performing financing exposures of the Group are facilities which have been restructured during the period which are as follows:

	31 December 2017		
	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	1,656	14,887	**16,543**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

34. RISK MANAGEMENT (Continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2017	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	128,187	-	-	-	-	135,632	263,819
Commodity and other placements with banks, financial and other institutions	30,921	67,624	-	-	-	-	98,545
Murabaha and other financings	200,138	113,020	830,951	361,200	303,532	-	1,808,841
Musharaka financing	26,477	21,139	36,421	42,764	12,451	-	139,252
Sukuk and investment securities	271,230	276,696	17,654	32,756	34	18,786	617,156
Assets acquired for leasing	10,858	-	2,877	985	116,386	-	131,106
Other assets	-	-	-	-	-	69,150	69,150
Total financial assets	**667,811**	**478,479**	**887,903**	**437,705**	**432,403**	**223,568**	**3,127,869**
Customer current accounts	-	-	-	-	-	676,888	676,888
Due to banks, financial and other institutions	307,348	43,795	70,747	6,779	5,127	839	434,635
Due to investors	59,805	141,008	490,911	27,579	-	-	719,303
Other liabilities	-	-	-	15,047	-	132,504	147,551
Total financial liabilities	**367,153**	**184,803**	**561,658**	**49,405**	**5,127**	**810,231**	**1,978,377**
Equity of unrestricted investment accountholders	469,932	120,709	373,615	100,642	-	-	1,064,898
Total financial liabilities and equity of unrestricted investment accountholders	**837,085**	**305,512**	**935,273**	**150,047**	**5,127**	**810,231**	**3,043,275**
Total repricing gap	**(169,274)**	**172,967**	**(47,370)**	**287,658**	**427,276**	**(586,663)**	**84,594**

	USD	PKR	AED
As at 31 December 2017			
Total profit rate exposure	287,718	164,143	112,178
Reasonable shift	0.17%	0.07%	0.09%
Total effect on income	**489**	**115**	**101**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the period.

Price risk

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the period and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices:

	Impact on other components of equity
Index	31 December 2017
Pakistan Stock Exchange (+/-10%)	1,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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(Expressed in thousands of Bahraini Dinars unless otherwise stated)

35. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

(a) Directors and companies in which they have an ownership interest.

(b) Major shareholders of the Bank, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).

(c) Associated companies of the Bank.

(d) Senior management.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

	31 December 2017				
	Shareholders & Affiliates	Associates and joint ventures	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	616,153	-	4,828	-	620,981
Investment in associates	-	210	-	-	210
Other assets	3,576	164	-	176	3,916
Liabilities					
Customers' current accounts	-	30,862	-		30,862
Due to banks, financial and other institutions	-	19,479	-	-	19,479
Equity of unrestricted investment accounts	10,664	7,163	203	-	18,030
Other liabilities	22,109	-	-	-	22,109
Commitments	3,929	-	-	-	3,929

	31 December 2017				
	Shareholders & Affiliates	Associates and joint ventures	Directors and related entities	Senior management	Total
Income					
Return to unrestricted investment accounts	303	293	7	-	603
Income from murabaha and other financings	9,185	-	-	-	9,185
Share of profit/(loss) after tax from associates	-	(217)	-	-	(217)
Profit paid to banks, financial and other institutions – net	409	506	-	-	915
Other Income - Management fees	(2,500)	-	-	-	(2,500)
Expenses					
Administrative and general expenses	198	-	19	-	217

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017
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36. CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the period ended. The capital adequacy ratio has been calculated in accordance with CBB guidelines & CBB directives incorporating credit risk, operational risk and market risk. The minimum regulatory requirement is 12.5% under Basel III.

	31 December 2017
Tier 1	191,347
Tier 2	21,106
Total Capital Base	**212,453**
Total Risk-Weighted Exposures	1,526,186
Capital Adequacy Ratio	**13.92%**

37. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the period ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the period ended 31 December 2017

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

38. NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Period ended
	31 December 2017
INCOME	
Income from other financings	49,873
Income from investments	43,739
Other income	11,312
Gross income	**104,924**
Less: profit paid to banks, financial and other institutions (net) - note (ii)	(45,145)
Total income	**59,779**
EXPENSES	
Administrative and general expenses - note (ii)	(34,270)
Depreciation and amortisation	(5,238)
Total expenses	**(39,508)**
Net income before provision for impairment and overseas taxation	**20,271**
Provision for impairment (net)	1,098
Net income before overseas taxation	**21,369**
Overseas taxation	(9,755)
NET INCOME FOR THE PERIOD	**11,614**
Attributable to:	
Equity holders of the Bank	7,732
Minority interests	3,882
	11,614
Basic and diluted earnings per share	**Fils 7.73**

Note (i) – The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the period to 197 out of total 404 branches.

Public Disclosures

At 31 December 2017

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PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

1. Background

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain (CBB) requirements outlined in its Public Disclosure Module (PD), CBB Rule Book, Volume II for Islamic Banks. The disclosures in this report are in addition to the disclosures set out in Ithmaar Bank B.S.C (C)'s (Ithmaar Bank/ Group) consolidated financial statements for the period ended 31 December 2017, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

2. Basel III Framework

CBB has issued Basel III guidelines for the implementation of Basel III capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel III framework provides a risk based approach for calculation of regulatory capital. The Basel III framework is expected to strengthen the risk management practices across the financial institutions.

The Basel III framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Capital management

Ithmaar Bank's capital management policy provides guidelines to ensure that it meets the capital requirements as mandated by the CBB and is able to estimate an appropriate capital level in order to support its business growth. Capital management also ensures that shareholders' value is protected and enhanced.

Regulatory capital is the minimum capital that is required by regulatory authority, to be maintained by Ithmaar Bank commensurate to the underlying risks. Ithmaar Bank has adopted the capital charge computations and adequacy ratios as per Basel III guidelines, and CBB Capital Adequacy regulations & directives.

Capital management is a coordinated effort by the Business, Risk Management, and Financial Control departments and is a part of a broader Internal Capital Adequacy Assessment Process (ICAAP). ICAAP covers the capital charge for all material risks in Pillar 1 and Pillar 2. ICAAP also recommends an internal capital adequacy ratio target over and above the regulatory requirement to absorb any un-expected losses arising due to Pillar 2 risks. The adequacy and sufficiency of capital ratio is also tested with a mechanism of stress scenario across various risk dimensions on a periodical basis. A comprehensive risk assessment of the Business and Budget Plans is independently performed by the Risk Management Department (RMD), which among others, assesses the capital requirement of Ithmaar Bank supporting both current and future activities. Ithmaar Bank's capital position is monitored on a regular basis and reported to the Asset Liability Management Committee (ALCO), the Audit, Governance and Risk Management Committee (AGRMC) and the Board of Directors.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3. Capital management (Continued)

Capital Adequacy Methodology:

As per the requirements of CBB's Basel III capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the Financial Institutions subsidiaries within the Group with the exception of the Bank's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel III compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under CA module of CBB rulebook.
- All significant investments in commercial entities are risk weighted if these are within 15% of the capital base at individual level and 60% at aggregate level. Any exposure over and above the threshold of 15% are risk weighted at 800%.
- All exposures exceeding the large exposure limit as per Credit Risk Management (CM) module of CBB rulebook are risk weighted 800%.

4. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel III guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. Regulatory Capital components

Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

The Bank's subsidiaries (consolidated line by line for accounting purposes) have the following treatment for regulatory purposes

Name	Total assets	Total Equity	Ownership	Country of Incorporation	Principal business activity	Regulatory Treatment
Faysal Bank Limited	1,648,724	117,917	67%	Pakistan	Banking	Aggregation
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) *	3,254	3,074	50%	Kingdom of Bahrain	Mortgage finance	Line by line consolidation

* Under voluntary liquidation.

The reconciliation from published financial information to regulatory return is as follows:

Balance sheet as per published financial statements	3,242,419
General Provision	6,005
Aggregation	51,845
Balance sheet as in Regulatory Return	**3,300,269**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. Regulatory Capital components (Continued)

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 31 December 2017

Assets	As per published financial statements	As per Consolidated PIRI	Reference
Cash and balances with banks and central banks	263,819	263,819	
Commodity and other placements with banks, financial and other institutions	98,545	98,545	
Murabaha and other financings	1,808,841	1,808,841	
Musharaka financing	139,252	139,252	
Sukuk and investment securities	617,156	617,156	
Restricted investment accounts	27,183	27,183	
Assets acquired for leasing	131,106	131,106	
Investment in real estate	3,994	3,994	
Other assets	69,150	69,150	
Fixed assets	22,252	22,252	
Intangible assets	61,121	61,121	
General Provision	-	6,005	
Aggregation	-	51,845	
Total Assets	**3,242,419**	**3,300,269**	
Liabilities & Unrestricted Investment Accounts (URIA)			
Unrestricted Investment Accounts	1,064,898	1,064,898	
Other liabilities	1,978,377	1,978,377	
Total Liabilities & URIA	**3,043,275**	**3,043,275**	
Minority Interest	44,541	44,541	
Owners' Equity			
Share capital	100,000	100,000	A
Reserves	31,902	31,902	
of which eligible for CET1	-	31,764	C
Retained earnings	22,701	22,701	
of which eligible for CET1	-	(8,551)	B
General Provision	-	6,005	D
Aggregation	-	51,845	
Total Owners' Equity	**154,603**	**212,453**	
Total Liabilities + Owners' Equity	**3,242,419**	**3,300,269**	

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. Regulatory Capital components (Continued)

Step 3: Composition of Capital Common Template (transition) as at 31 December 2017

Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2	Amount subject to pre- 2015 treatment
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	100,000	A	-
Retained earnings	(8,551)	B	-
Reserves	31,764	C	-
Aggregation & deductions	68,134		-
Total CET1 capital	**191,347**		-
General Provision	6,005	D	-
Aggregation & deductions	15,101		-
Total T2 Capital	**21,106**		-
Total Capital	**212,453**		-
Total Risk Weighted Assets (RWA)	**1,526,186**		-
Capital Adequacy Ratio (CaR)	**13.92%**		-

6. Tier one capital ratios and Total capital ratios:

	Tier One Capital Ratio (including conservation buffer)	Total Capital Ratio (including conservation buffer)
Bank's consolidated	12.54%	13.92%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	14.00%	15.90%

7. Risk Management

7.1 Risk Management Objectives

Risk is an integral part of Ithmaar Bank's business and managing it is critical to Ithmaar's continuing success and profitability. The essence of effective risk management is to enhance shareholders' and Investment Account Holders' value through business profits commensurate with the risk appetite of Ithmaar Bank and seeks to minimize the potential adverse effects on its financial performance. Ithmaar Bank has over the years, developed risk management into a core competency and remains well positioned to meet imminent challenges. Risk Management at Ithmaar has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

Ithmaar Bank has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. The Bank's risk management framework is based on guidelines issued by the Central Bank of Bahrain (CBB), sound principles of risk management issued by Bank of International Settlements and international best practices, and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) wherever applicable.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

7. Risk Management (Continued)

7.2 Strategies, Processes and Internal Controls

7.2.1 Risk Management Strategy

Ithmaar Bank's Risk Management Charter lays the foundations for a risk governance structure. The risk strategy in terms of the overall risk appetite, risk tolerance levels and risk management methodologies are assimilated in the various risk policies and the Internal Capital Adequacy Assessment Process (ICAAP) report of Ithmaar Bank which are reviewed and approved by the Board of Directors. The risk strategy is reviewed annually in line with the Bank's business strategy. The Board also oversees the establishment and implementation of risk management systems and policies for all processes and risk exposure.

The process of risk management is carried out by an independent control function; the Risk Management Department (RMD) headed by the Chief Risk Officer with a direct reporting line to the AGRMC. The Department is mandated with identifying, quantifying and assessing all risks and recommending appropriate prudential limits and risk management methodologies within the parameters of the overall risk management strategy approved by the Board.

A well-defined governance structure is implemented where authority levels are clearly laid down for manual and system based transactions. Furthermore, the culture of Risk is embedded in the Business through a rigorous set of controls, checks and balances. As part of Ithmaar Bank's continuous improvement initiatives, Ithmaar Bank reviews existing risk policies and procedures and develops new policies and procedures by benchmarking the same to changes or new requirements in the regulatory and external environment. The board reviews and approves the Business Discretionary powers policy which establishes the approval authorities and limits for specific transactions.

7.2.2 Equity Risk in Banking Book

Ithmaar Bank's exposure to equity risk in the Banking book relates to its investment exposures. Ithmaar Bank has a dedicated Asset Management Department for managing the existing investments. The Board has established an Asset Management Policy which establishes the guidelines relating to management of investments.

All investment exposures are reviewed annually and presented to the management or Board level committees depending on the asset value.

7.2.3 Material Transactions- Board Approval

All financing and investment exposures above a defined value requires the approval of the Board. Additionally, all related party transactions and irrespective of their value require the approval of the Board.

7.3 Risk Measurement and Reporting System

The risk appetite of Ithmaar Bank is approved by the Board. To enable the effective monitoring of the activities of the Bank and to be compliant with the risk appetite approved by the Board, appropriate measurement processes, monitoring of exposures vis-à-vis limits as provided in the various risk management policies are in place. The risk policies set guidelines to limit concentration risk within the portfolio by large exposure, connected counterparty, country, industry, tenor and products. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. Exceptions to the limits as provided in the policies are escalated to the appropriate authority.

7.4 Credit Risk

Capital charge for credit risk is computed under the Standardized Approach.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

7. Risk Management (Continued)

7.4 Credit Risk (Continued)

7.4.1 Credit Risk Management Structure

Credit risk management structure in Ithmaar Bank includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of Credit risk management processes.

The Bank has a well-defined organizational structure with clearly articulated roles and responsibilities for the Credit risk management function in the Bank.

The Bank has proper processes in place, not only to appraise but also regularly monitor credit risk. Ithmaar Bank has established a General Financing Policy which details the core business principles, which are central to the Bank's Credit culture, as well as general guidelines for permitted and restricted transactions. The policy states the Credit assessment methodology and the detailed standards for documentation of client information.

Ithmaar Bank manages its Credit risk arising from its banking exposures by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks.

7.4.1.1 Corporate credit risk (including financial institutions)

Corporate credit risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of the credit facility. Corporate credit risk is managed by proper assessment of risks inherent in an individual credit proposal and also ongoing review of the corporate credit portfolio to ensure its compliance to the credit risk appetite of Ithmaar Bank. In addition to the rigorous credit analysis, the covenants for each facility are strictly monitored by the Credit Administration Department.

Ithmaar Bank has proper processes in place, not only to appraise but also regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which includes obtaining collateral, assignment of receivables and counter-guarantees. The corporate accounts are rated on a credit risk rating model, this enhances the process of credit review and ensures timely identification of any deterioration of the corporate's status and corrective actions can be implemented. The credit risk rating model incorporates both quantitative and qualitative risk parameters for the grading and classification of corporate customers. The Bank has in place policy guidelines to map the external ratings to internal ratings.

A centralized credit risk management system is in place where all corporate credit and financial institutions proposals are independently reviewed by the Risk Management Department (RMD) before the same are approved by appropriate approval authorities.

All credits exposures are at least reviewed and rated annually and appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability.

In respect of corporate performing accounts, provisioning based on the guidelines of FAS30 – Expected Credit Losses (ECL) is provided. The Bank has in place an automated application for the computation of ECL based on risk parameters configured in the application.

7.4.1.2 Retail credit risk

Retail credit is offered to customers primarily based on approved product programs which defines the risk acceptance criteria. Overdue amounts in the retail credit portfolio are closely monitored to arrest the individual accounts from slipping into non-performing status. The retail credit product programs are regularly reviewed to ensure their compliance with existing regulatory guidelines and enhance marketability. In all its initiatives, the interest of the customer is accorded as Top Priority.

The retail credit portfolio is reviewed at monthly intervals.

In respect of retail performing accounts, provisioning based on the guidelines of FAS30 – Expected Credit Losses (ECL) is provided. The Bank has in place an automated application, for the computation of ECL based on risk parameters configured in the application.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

7. Risk Management (Continued)

7.4 Credit Risk (Continued)

Unrestricted FUM assets

The Funds under Management Policy provides detailed guidelines for the assets suitable for funding by unrestricted investment accounts, it clearly provides that the funds in unrestricted investment account will be used for funding low risk assets.

7.4.2 Concentration Risk

The risk policies set guidelines to limit concentration risk within the portfolio by larger exposure, connected counterparty, country, industry, tenor and products. Ithmaar Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. A Limit Management Policy is in place, this policy provides guidelines on the threshold limits. As per CBBs single obligor regulations, banks incorporated in Bahrain are required to obtain CBB's prior approval for any proposed exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

7.4.3 Credit Portfolio Management

Portfolio management is an integral part of the credit risk management process that enables Ithmaar Bank to limit concentrations, reduce volatility, increase liquidity and achieve optimum earnings. It does so by incorporating portfolio strategy and planning, performance assessment and reporting functions into one comprehensive management process. The Risk Management Department is responsible for carrying out the activities in relation to credit risk portfolio management in coordination with business and support departments. The Risk Management Department seeks information from different business units and Financial Control Division on a regular basis to perform this function. The Risk Management Department undertakes the review, monitoring and control of limits structures based on the portfolio diversification parameters.

7.4.4 Country Exposure

The Limits Management Policy provides exposure limits for countries; the limits are based on the ratings assigned to the country by the External Credit Assessment Institutions (ECAIs). Exposure vis-à-vis limits assigned to the countries are monitored on an on-going basis and status thereof is submitted to the AGRMC at quarterly intervals.

7.4.5 Credit Risk Mitigation

Ithmaar Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While the existence of collaterals is not a precondition for credit, exposures are fully or partially collateralized as a second line of defense. The Bank has in place a Credit Risk Mitigation policy which provides guidelines on the types of assets that may be accepted as collateral and the methodology of valuation of these assets. In general, all collaterals are valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

Ithmaar Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Ithmaar prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued. Third party guarantees are accepted as collateral only after analyzing the financial strength of the guarantors.

The following types of collateral are accepted by the Bank:

- Primary Collaterals
- Collateral Support

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

7. Risk Management (Continued)

7.4 Credit Risk (Continued)

7.4.5 Credit Risk Mitigation (Continued)

Primary Collaterals constituting assets of the type Real Estate properties, fixed charge over Moveable properties and Cash Collaterals are required to meet the following essential conditions:

- It is a tangible or an intangible (financial) asset;
- A ready secondary market is easily identifiable;
- A monetary-value can be easily attached to the asset;
- Can be easily converted into cash without incurring additional costs (such as dismantling costs);
- Can be legally assigned or mortgaged to the Bank within applicable laws; and
- The Bank can maintain unquestionable control over the asset.

Collateral Support are assets that do not meet the essential conditions stipulated in Primary Collaterals above. These assets may be accepted by the Bank as means to control the counterparty's exposure rather than basing credit decisions on their values.

These following assets are considered as Collateral Support:

- Pledge or mortgage of saleable goods or plant and machinery provided the charge can be legally registered;
- Fixed charges over moveable assets, not legally registered or difficult to reasonably value;
- Second charge on real estate properties and moveable assets;
- Pledge of unlisted securities such as shares, bonds and debentures;
- Registered assignment of life insurance endowment policies - to the extent of cash surrender-value;
- Third-party or Corporate guarantees issued by individuals / institutions other than banks;
- Assignment of contract proceeds, lease, or rent;
- Investments in Restricted Investment Accounts managed by the Bank other than those already obtained as collateral against existing exposures.

7.4.5.1 Collateral valuation

Collaterals when taken are identified as having reasonable value, their value would however change over a period of time due to prevailing economic conditions, plant and machinery becoming obsolete due to technological advancements, due to passage of time and due to increase in availability of similar collateralized securities. Listed securities are valued at monthly intervals, unlisted securities are valued at annual intervals, Real estate properties are valued at least once in two years' intervals, and special assets of the nature of marine vessels and aircrafts are valued at annual intervals. Value of collaterals are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy.

7.4.5.2 Guarantees

Guarantees are taken from individuals and Corporates. In cases where a letter of guarantee from the counterparty's parent company or from a third party is offered as credit risk mitigant, it is ensured that the guarantees must be irrevocable and unconditional, If the guarantor is located outside Bahrain, legal opinion is obtained from a legal counsel domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee, further the financial position of the guarantor is adequately analyzed to determine the value and commercial viability of the guarantee.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

7. Risk Management (Continued)

7.4 Credit Risk (Continued)

7.4.5.3 Collateral Concentration

Ithmaar Bank has established internal limits to avoid over concentration on certain class of collaterals. Prudent maximum limits have been set for the acceptance of collaterals as credit risk mitigation.

7.4.5.4 Collateral Management

Documents related to collaterals provided to Ithmaar Bank is managed by the Credit Administration department. Appropriate policies and procedures are in place for the management of the collateral, in respect of valuation, maintenance of the original documents, temporary release and permanent release of such collaterals. A comprehensive MIS supporting the management of the collateral is in place.

7.4.6 Classification of credit exposures

The Bank has in place a detailed policy for Classification Provisioning and Write-Off, this policy provides detailed guidelines for classification and provisions of credit facilities.

All credit exposures are classified as past due and impaired when any installment is not paid over a 90-day period. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability. Accounts with past dues over a 90 days' period are classified into categories Sub-Standard, Doubtful and Loss assets. Appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines.Ithmaar Bank follows, except the subsidiary entities which may follow their own regulatory guidelines, a time-based criteria of past due days to estimate the specific provisioning requirements, and past due accounts are reviewed periodically.

In respect of General Provisions, the Bank has subscribed to the provisions of FAS30 for the computation of Expected Credit Losses (ECL), as per the directives of Central Bank of Bahrain. In order to enable the computation of the ECL, a detailed policy FAS 30 Expected Credit Policy' is in place. The Bank has automated the computation of the ECL by implementing a software application called Loan Impairment Calculator with effect from 1 January 2018.

7.4.7 Counterparty Credit Risk

Counterparty is defined as an individual, legal entity, guarantor being financed by Ithmaar Bank. Definition also includes Issuer of securities held by Ithmaar Bank. The Bank had adopted the Standardized Approach to allocate capital for counterparty credit risk. The Credit Risk Mitigation Policy provides guidelines for securing the exposures to Counterparties. Limits for Connected Counter parties of Ithmaar Bank and Country and Industry limits are also in place. In case of deterioration in the counterparty's credit rating, additional collateral may be called for or the exposure to the counterparty is reduced. The Classification, Provisioning and Write-off Policy provides detailed guidelines for classification and provisioning for exposures to counterparty's which are classified.

Policy guidelines for general provision is enumerated in the 'FAS30 – Expected Credit Losses' policy of the Bank.

7.4.8 ECAI Ratings

Ithmaar Bank has subscribed to the CBB guidelines for the utilization of external ratings, where available, by External Credit Assessment Institutions (ECAI) for the purpose of risk assessment. In case multiple ECAI ratings are available for a single counterparty, the lowest of them is taken to assign the relevant risk category. Standard and Poors, Moodys and Fitch ratings are considered while assigning the corresponding risk weights for the exposures. The Bank complies with all the qualitative requirements stipulated by the CBB for the recognition process and eligibility criteria of ECAI rating in the Credit Risk Management policy. ECAI ratings are applied, where applicable, to all credit and investment exposures.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

7. Risk Management (Continued)

7.4 Credit Risk (Continued)

7.4.9 Related party transactions

As per the Bank's policies, connected counterparties ' includes companies or persons connected with the Bank, including, in particular; controllers of the bank (and their appointed board representatives) as defined in Chapter GR-5 of the CBB Rulebook; subsidiaries, associates and related parties of the bank as defined by IFRS; holders of controlled functions in the bank as defined by Module LR-1A of the CBB Rulebook and their close family members as defined by IFRS - IAS 24; members of the Shari'a Supervisory Board.

The erstwhile Ithmaar Bank B.S.C. (now Ithmaar Holding B.S.C.) has undergone major reorganization in 2017. As part of this reorganization, Ithmaar Holding B.S.C. and its wholly owned subsidiaries Ithmaar Bank B.S.C. (C) and IB Capital B.S.C.(C) have executed certain contracts between three entities and as most of the Directors are common for all three entities, there is an apparent conflict of interest as these contracts were approved by Directors who represented both entities who were party to the contracts. Given the reorganisation requirements, ownership structure and Directors being common, contracts between these entities are considered as related party transactions but the conflict of interest is not considered to be applicable to ensure minimum quorum for voting.

Declarations of Interest:

On taking office, Members of the Board of Directors of the Bank are required to disclose all interests and relationships which could or might be seen to affect their ability to perform their duties as a Member of the Board of Directors. Any such interests declared shall be recorded in the Board of Director's Register of Interests, which are maintained by the shareholders affairs unit. This declaration of interest is updated on an annual basis.

Approval of Related Party Transactions:

- All related party transactions are approved by the Board of Directors.
- Where applicable, persons who have interests in the transaction under discussion abstain from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganization.
- Approval of a transaction shall be considered irrespective of the settlement method, whether settled in cash or otherwise.
- Certain related party transactions may require advance notice to and approval by the CBB and / or any other applicable regulatory authority as per CBB rulebook and the Limit Management Policy of the Bank.
- In particular, Members of the Board of Directors of the Bank disclose all relevant information which might give rise to a conflict of interest, or a perceived conflict of interest. Each Member of the Board of Directors inform the Bank when there are changes in his / her interests, and the Shareholders affairs unit update the Register of Interests at least on an annual basis.

During 2017, Directors having conflict of interests in the transaction under discussion abstained from voting on the approval of the proposed related party transaction, except where the transaction is required as part of the reorganization.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. Disclosure of the regulatory capital requirements for credit risk under standardized approach:

Exposure funded by Self Finance

	Risk weighted assets	Capital requirement
Claims on sovereign	9,583	1,198
Claims on banks	36,696	4,587
Claims on corporate portfolio	352,217	44,027
Investments in equity securities	631	79
Holding of real estate	24,403	3,050
Regulatory retail portfolio	630	79
Past due facilities	12,469	1,559
Other assets	3,131	391
Aggregation	794,586	99,323
Total	**1,234,346**	**154,293**

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Claims on corporate portfolio	122,997	15,375
Holding of real estate	848	106
Regulatory retail portfolio	107,839	13,480
Past due facilities	16,514	2,064
Total	**248,198**	**31,025**

9. Gross credit exposures

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with banks and central banks	263,819	263,819
Commodity and other placements with banks, financial and other institutions	98,545	98,545
Murabaha and other financings	1,808,841	1,808,841
Musharaka financing	139,252	139,252
Assets acquired for leasing	131,106	131,106
Investments	648,333	648,333
Other assets	69,150	69,150
Fixed assets	22,252	22,252
Intangible assets	61,121	61,121
Total on balance sheet credit exposure	**3,242,419**	**3,242,419**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit, acceptance and endorsements	285,462	285,462
Financing commitments, Undrawn facilities and other credit related liabilities	798,528	798,528
Total off balance sheet credit exposure	**1,083,990**	**1,083,990**
Total credit exposure	**4,326,409**	**4,326,409**
Total credit exposure financed by URIA	**1,227,987**	**1,227,987**
Total credit exposure financed by URIA (%)	**28.38%**	**28.38%**

Average gross credit exposures have been taken as outstanding as of 31 December 2017 since this is the first period of the Bank. Exposures amounting to BD2.6 million are covered by guarantee.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10. Geographical distribution of credit exposures:

	Asia	Middle East	Europe	Others	Total
On-balance sheet items					
Cash and balances with banks and central banks	68,038	152,141	35,966	7,674	263,819
Commodity and other placements with banks, financial and other institutions	98,545	-	-	-	98,545
Murabaha and other financings	672,298	1,120,665	5,137	10,741	1,808,841
Musharaka financing	139,252	-	-	-	139,252
Assets acquired for leasing	-	131,106	-	-	131,106
Investments	620,524	27,809	-	-	648,333
Other assets	45,289	23,854	7	-	69,150
Fixed assets	20,418	1,834	-	-	22,252
Intangible assets	5,108	56,013	-	-	61,121
Total on balance sheet items	**1,669,472**	**1,513,422**	**41,110**	**18,415**	**3,242,419**
Off balance sheet items	**987,993**	**95,931**	**-**	**66**	**1,083,990**
Total credit exposure	**2,657,465**	**1,609,353**	**41,110**	**18,481**	**4,326,409**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

11. Industrial distribution of credit exposures:

	Banks and Financial Institutions	Trading and manufacturing	Property and construction	Services	Private Individuals	Textile	Others	Total
On-balance sheet items								
Cash and balances with banks and central banks	263,266	-	553	-	-	-	-	263,819
Commodity and other placements with banks, financial and other institutions	98,545	-	-	-	-	-	-	98,545
Murabaha and other financings	753,713	321,405	43,037	14,253	531,707	87,075	57,651	1,808,841
Musharaka financing	22,717	61,861	14,483	7,245	23,768	7,278	1,900	139,252
Assets acquired for leasing	198	4,927	2,169	-	123,812	-	-	131,106
Investments	588,812	27,793	31,177	189	-	362	-	648,333
Other assets	35,491	-	4,092	-	10,088	-	19,479	69,150
Fixed assets	20,418	-	1,834	-	-	-	-	22,252
Intangible assets	61,121	-	-	-	-	-	-	61,121
Total on balance sheet items	**1,844,281**	**415,986**	**97,345**	**21,687**	**689,375**	**94,715**	**79,030**	**3,242,419**
Off balance sheet items	**352,567**	**417,563**	**16,796**	**11,526**	**6,115**	**24,635**	**254,788**	**1,083,990**
Total credit exposure	**2,196,848**	**833,549**	**114,141**	**33,213**	**695,490**	**119,350**	**333,818**	**4,326,409**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

12. Maturity breakdown of credit exposures and funding liabilities:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash and balances with banks and central banks	241,202	22,617	-	-	-	-	-	263,819
Commodity and other placements with banks, financial and other institutions	98,545	-	-	-	-	-	-	98,545
Murabaha and other financings	176,545	226,407	174,931	942,172	270,378	18,408	-	1,808,841
Musharaka financing	2,473	3,404	8,848	67,936	35,359	21,232	-	139,252
Assets acquired for leasing	1,278	198	2,877	3,109	3,736	54,252	65,656	131,106
Investments	268,559	211,212	54,883	20,924	52,593	12,979	27,183	648,333
Other assets	35,794	8,714	2,837	11,132	10,673	-	-	69,150
Fixed assets	-	-	230	4,645	6,403	10,974		22,252
Intangible assets	-	-	185	2,241	-	32,268	26,427	61,121
Total on balance sheet items	**824,396**	**472,552**	**244,791**	**1,052,159**	**379,142**	**150,113**	**119,266**	**3,242,419**
Off balance sheet items	**571,889**	**148,886**	**215,830**	**140,399**	**6,986**	**-**	**-**	**1,083,990**
Total credit exposure	**1,396,285**	**621,438**	**460,621**	**1,192,558**	**386,128**	**150,113**	**119,266**	**4,326,409**
Customers' current accounts	676,888	-	-	-	-	-	-	676,888
Due to banks, financial and other institutions	298,770	49,525	72,930	8,283	5,127	-	-	434,635
Due to investors	454,386	116,418	145,313	3,186	-	-	-	719,303
Equity of unrestricted investment accountholders	468,451	117,958	377,847	100,642	-	-	-	1,064,898
	1,898,495	**283,901**	**596,090**	**112,111**	**5,127**	**-**	**-**	**2,895,724**

13. Related-party balances under credit exposure:

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2017 were as follows:

Affiliated companies	620,103
Directors & key management	5,004
Total	**625,107**

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

14. Past due and impaired financings and related provisions for impairment:

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	70,526	62,693	7,833
Agriculture	5,351	3,122	2,229
Construction	25,353	3,664	21,689
Finance	3,631	705	2,926
Trade	39,262	30,244	9,018
Personal	23,506	5,774	17,732
Real estate	11,510	7,621	3,889
Other sectors	2,637	1,110	1,527
Total	**181,776**	**114,933**	**66,843**
Ageing analysis			
Over 3 months up to 1 year	9,352	1,108	8,244
Over 1 year up to 3 years	6,887	1,275	5,612
Over 3 years	165,537	112,550	52,987
Total	**181,776**	**114,933**	**66,843**

Details of impairment provisions at 31 December 2017	Relating to owners	Relating to unrestricted investment accounts	Total
Specific impairment provisions	107,399	7,534	114,933
General impairment provisions	4,714	-	4,714
Details of impairment provision charge and write back for the period.			
Charge for the period	9,620	-	9,620
Write back during the period	(7,294)	-	(7,294)

15. Past due and impaired financings by geographical areas:

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia	117,048	98,748	18,300
Middle East	64,728	16,185	48,543
Total	**181,776**	**114,933**	**66,843**

16. Details of credit facilities outstanding that have been restructured during the period ended 31 December 2017:

Restructured financings during the period ended 31 December 2017 aggregated to BD16.6 million. This restructuring had an impact of BD0.6 million on present earnings during the period ended 31 December 2017. Further, this restructuring is expected to have positive impact of BD1 million on the Group's future earnings. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

17. Credit exposures which are covered by eligible financial collateral:

Exposure funded by Self Finance

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	414,960	67,825
Regulatory retail portfolio	920	80
Past due financings	11,382	1,816
Total	**427,262**	**69,721**

Exposure funded by Unrestricted Investment Accounts

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	437,015	27,024
Regulatory Retail Portfolio	479,323	38
Past due financings	43,094	4,789
Total	**959,432**	**31,851**

Counterparty Credit Risk (CCR)

	Gross Positive Fair Value of Contracts	Netting Benefit	Credit Risk Mitigation	Net Value Exposure at Default	Risk Weighted Assets
Foreign Exchange Contracts	4,435	-	-	4,435	2,377
Total	**4,435**	**-**	**-**	**4,435**	**2,377**

18. Market Risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

The Market Risk Management Policy address all aspects of market risk. Implementation of the policy, procedures and monitoring of regulatory and internal limits for Ithmaar Bank is the responsibility of the relevant business units with oversight by the Asset-Liability Committee (ALCO) and the AGRMC.

The capital charge for market risk is computed as per the standardized approach.

18.1 The key market risk factors that the Bank is exposed to are discussed below:

18.1.1 Foreign exchange risk:

Foreign exchange risk is the risk that the foreign currency positions taken may be adversely affected due to volatility in foreign exchange rates. The responsibility for management of foreign exchange risk rests with the Treasury Department. Foreign exchange risk management in Ithmaar Bank is ensured through regular measurement and monitoring of open foreign exchange positions. The foreign exchange transactions carried out by Ithmaar Bank are on behalf of customers, are on a back-to-back basis, and no proprietary positions are assumed by the Bank.

18.1.2 Profit rate risk:

Profit rate risk is the risk that Ithmaar Bank will incur a financial loss as a result of mismatch in the profit rate on the assets, investment account holders and customer liabilities. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders. However, the profit sharing arrangements will result in displaced commercial risk when Ithmaar Bank's results may not allow Ithmaar to distribute profits in line with the market rates.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

18. Market Risk (Continued)

18.1.3 Price risk:

Investment price risk is the risk of reduction in the market value of Ithmaar Bank's portfolio as a result of diminution in the market value of individual investment.

18.1.4 Commodity risk:

The Bank does not have exposure to the commodity market.

18.2 Market risk management strategy

The market risk strategy is approved by the Board and amendments to the policies are approved by the Board. The senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

Strategies for market risk management includes:

1. The Bank will comply with the provisions of the market risk strategy while assuming any market risk exposures.
2. A limit structure has been established to monitor and control the market risk in its portfolio.
3. Each new product/process is reviewed to manage the market risk.
4. Appropriate measurement techniques are in place to proactively measure and monitor market risk.
5. Stress testing is conducted regularly to assess the impact of changes in the market variables.
6. Sufficient capital will be held at all times to meet the capital requirements in line with CBB Basel III Pillar I requirements.

18.3 Market risk management measurement and monitoring

The various techniques used by the Bank for the purposes of measuring and monitoring of market risk are as follows:

- Overnight forex open positions
- Profit rate gap analysis
- Earnings at Risk
- Economic Value

Risk Management Department of the Bank monitors the positions vis-à-vis the limits approved by the Board.

18.4 Limits monitoring

Regulatory/In-House Policy Limits and guidelines as approved by the Board are strictly adhered to, deviations if any are immediately escalated and action taken wherever necessary.

18.5 Portfolio review process

As part of the risk review process, Risk Management Department monitors Ithmaar Bank's overall exposure to market risk. Reports of such review is submitted to the ALCO and the AGRMC.

18.6 Management Information System

Reports on market risk are a calendar item at the meetings of the ALCO and AGRMC. The reports provide Ithmaar Bank's ALCO and AGRMC an update on the market risk exposure in the books.

18.7 Stress Testing

Ithmaar Bank employs multiple categories of stress testing, profit rates, foreign exchange rates and equity prices. For each category the worst possible shocks that might realistically occur in the market are considered for stress testing.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

19. Disclosure of regulatory capital requirements for market risk under the standardized approach:

	Risk weighted assets			Capital requirement		
	31 December 2017	Maximum Value	Minimum Value	31 December 2017	Maximum Value	Minimum Value
Foreign exchange risk	2,455	67,744	533	307	8,468	67
Aggregation						
Foreign exchange risk	552	5,212	232	69	652	29
Profit Rate Risk (Trading Book)	12,325	32,326	24,715	1,541	4,041	3,089
Equity Position Risk	25,947	9,121	8,458	3,243	1,140	1,057
Total	**41,279**	**114,403**	**33,938**	**5,160**	**14,300**	**4,242**

20. Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars, UAE Dirhams and Pakistani Rupee. Bahraini Dinars and UAE Dirhams are pegged to US Dollars and as such currency risk is minimal. The Bank's investment in FBL is in Pak Rupees (PKR) and exposes the Bank to foreign exchange risk. The cumulative foreign exchange loss as of 31 December 2017 amounted to BD17 million (included in the foreign exchange translation reserve statement of changes in equity).

The significant net foreign currency positions at 31 December 2017 were as follows:

	Long/(Short)
Pakistani Rupee	56,611
United States Dollars	202,197

21. Equity position in Banking book

At 31 December 2017, the Group's sukuk and investment securities aggregated to BD617.2 million. Out of the total investment securities, BD106.5 million were listed investment securities and the remaining BD395.7 million represented unlisted investment securities.

Cumulative realized income from sale of investment securities during the period ended 31 December 2017 amounted to BD2.4 million. Total unrealized loss recognized in the consolidated statement of changes in owners' equity amounted to BD3.8 million.

31 December 2017, capital requirements using standardized approach aggregated to BD77,375 for listed investment securities and BD1,500 for unlisted investment securities after aggregation/pro-rata aggregation of investments in Banking and other financial entities.

22. Profit Rate Risk in the Banking Book

Profit rate risk in Ithmaar Bank's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet resulting from the impact of changes in profit rates on mismatched maturity and repricing assets and liabilities in the banking book.

22.1. Following are the sources of profit rate risk:

- Maturity mismatch: The non-alignment of maturities/re-pricing dates of assets and liabilities gives rise to profit rate risk. In the case of fixed profit rates, maturities are considered whereas for floating or variable profit rates the re-pricing/rollover dates are considered.
- Basis value risk: Assets and liabilities with similar maturities/re-pricing dates and highly, though imperfectly, correlated profit rate benchmarks (USD-LIBOR and BIBOR) are exposed to basis risk.
- Profit rate curve risk: Changes to the values, slope and shape of the profit rate curve that impact the assets and liabilities of Ithmaar Bank in a dissimilar manner gives rise to profit rate risk.
- Risk of counterparty's options underlying assets: The availability of options, with Ithmaar Bank's counterparties, to make prepayments or early withdrawals can leave Ithmaar Bank with excess or deficit funds that need to be invested or funded again at unknown profit rates.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

22. Profit Rate Risk in the Banking Book (Continued)

22.2. Profit rate risk strategy

The Board of Ithmaar Bank approves and reviews the profit rate risk strategy and amendments to the Market risk policies. The ALCO is responsible for implementing the profit rate risk strategy approved by the Board. As a strategy the following measures are initiated:

- Strive to maintain appropriate spread between cost of funds and yield on financing
- Reduce the maturity/repricing mismatch gap between assets and liabilities
- Review the profit rate offered on liabilities products to remain competitive in the market
- Identify profit rate sensitive products Ithmaar Bank wishes to engage in

22.3. Measurement of profit rate risk

The Bank has adopted the following methods for profit rate risk measurement in the banking book:

- Re-pricing gap analysis: measures the gap between the Rate Sensitive Assets (RSAs) and Rate Sensitive Liabilities (RSLs).
- Economic value of equity (EVE) – Duration Gap: This measures the loss in value of the portfolio due a small change in profit rates. Ithmaar Bank will adopt EVE measure using duration (weighted-average term to- maturity of the security's cash-flows) estimates for various time bands. Assumptions for the computation of economic value are subscribed from Basel II guidelines and international best practices.
- Income Effect - Earnings-at-risk (EaR): Earnings perspective involves analyzing the impact of changes in profit rates on accrual or reported earnings in the near term. In the earnings perspective, the focus of analysis is the impact of changes in profit rates on accrual or reported earnings. Ithmaar Bank also performs a stress testing of the impact of 200 basis points on the capital of the Bank.

22.4. Profit rate risk monitoring and reporting

Profit rate risk is monitored by reviewing the repricing profile of the Rate Sensitive Assets and Rate Sensitive Liabilities.

MIS on profit rate risk, including the impact of shift in profit rates on the earnings and economic value is presented to the ALCO and the AGRMC.

22.5. Disclosure of Profit rate risk:

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;

	USD	PKR	AED
Total profit rate exposure	287,718	164,143	112,178
Rate shock (assumed) (+/-)	0.17%	0.07%	0.09%
Total estimated impact (+/-)	**489**	**115**	**101**

23. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

Ithmaar Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Ithmaar Bank is able to manage the operational risks to an acceptable level.

23.1 Operational risk management strategy

The Bank has in place a robust framework for the management of Operational Risk. Policies and Procedures on Operational Risk provide detailed guidelines for management of Operational Risks in Ithmaar Bank.

All new products and processes are reviewed to identify the operational risks therein and mitigants are put in place.

The approach to Operational Risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties.
- Maintenance of an effective internal control environment.
- Escalation and resolution of risk and control incidents and issues.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

23. Operational Risk (Continued)

23.2. Operational risk monitoring and reporting

Report on Operational Risk events is submitted by the support and business departments, the events are reviewed and discussed, and shortcomings are resolved, external loss events are also recorded and reviewed in terms of its relevance to Ithmaar Bank's operations.

A robust Risk Control and Self-Assessment process has been implemented; whereby significant risks in a process are identified and evaluated taking into consideration the inherent risk and residual risk.

Key Risk Indicators (KRIs) for all the significant risk areas have been developed and trends thereof are being monitored. Ithmaar Bank has also established bank-wide Key Risk Indicators (KRI) which are constantly monitored to assess the overall operational risk profile.

The AGRMC is periodically updated on the operational risk profile which include the review of the operational risk events, KRI monitoring and details of any operational risk event leading to financial or reputational loss.

23.3 Operational risk mitigation and control

The Operational Risk management process through RCSA, KRI and loss reporting is complemented by the department-level procedures which ensure that concerned staffs are well aware of their responsibilities and processes associated with their responsibilities.

The RCSA process also helps to identify the material operational risks and decision on appropriate controls to be implemented to mitigate the risks is arrived at. At times a decision is taken whether to accept the risks, reduce the level of activity involved, transfer the risk, or withdraw from the associated activity completely jointly by the Risk Management Department along with the concerned business/support department.

The Risk Management Department in consultation with the Legal department monitors the pending legal cases against Ithmaar Bank. Wherever required Risk Management Department in coordination with the Legal Department assesses the impact of legal cases on the Operational and Reputational risk profile.

23.4 Business Continuity Plan

Ithmaar has in place a Business Continuity Policy which deals with policy initiatives to ensure that Ithmaar continues its critical activities following a disastrous event.

This provides the plan for continuity of business operations at all times in case of any potential disruptions resulting from unanticipated loss of services or infrastructure.

Disaster Recovery Sites has been set up at Muharraq Branch and West-Riffa Branch. The premises are well equipped with the required infrastructure. A Business Continuity Steering Committee and Business Continuity Implementation Committee have been set up, which oversee the implementation of the Business Continuity Plan in Ithmaar.

23.5 Information Secuirty

Ithmaar Bank's Information Security and compliance function within RMD role is to prevent disruptions of the Information Security systems as it would impact Bank's business objective, its operations and also impede the main pillars of Information Security (Confidentiality, Integrity, and Availability).

The function continually strengthens and improves the overall capabilities of the information security management system by ensuring that Ithmaar Bank's Information Security process is complete, reliable and adhering to international standards.

It is also ensured that information security related operations continue to be carried out in line with international standards such as (IEC/ISO 27001 and PCI-DSS). It is also ensured that on-going training and awareness on information security is provided to the employees of the Bank. Towards this end on-line training and awareness sessions on information security is provided to the employees of the Bank.

The Bank is IEC/ISO 27001 and PCI-DSS certified, this reflects the importance assigned to information security by the Bank.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

23. Operational Risk (Continued)

23.5 Information Secuirty (Continued)

The Information Security function actively preforms various task in terms of:

- Cyber and Information security training
- Security Certification compliance and assurance
- Review and preparation of Information security policies and procedures
- Incident response management
- Active monitoring and auditing of Applications and systems
- Provides reports and assistance to the information security steering committee
- Engagement in Bank's on-going projects
- Bank's compliance with Bahrain Information security laws and Regulatory requirements

23.6 Reputation Risk

Reputation risk is the risk that an event will adversely affect Ithmaar Bank's reputation in the market, which, in turn, may adversely impact its ability to effectively undertake its activities.

Sound corporate governance is a cornerstone in managing reputation risk. Ithmaar Bank has in place a Reputational Risk Management Policy which details Ithmaar Bank's multi-faceted approach relating to the management of reputational risk. Ithmaar also has a Corporate Governance Policy and a Code of Ethics and Business Conduct Policy for the members of the Board, management and staff. This Code helps to build an atmosphere of professionalism, integrity and ethical behaviour within Ithmaar Bank to avoid reputation risks.

24. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach:

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel III guidelines. The capital requirement for operational risk at 31 December 2017 aggregated to BD 19.8 million.

25. Liquidity Risk

Liquidity risk is the risk that Ithmaar Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:

- From the inability to manage unplanned decreases or changes in funding sources; or
- from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements, Funding and liquidity management is performed centrally by the Treasury, with oversight from the ALCO . ALCO is responsible for setting the framework and for effective monitoring of Ithmaar Bank's liquidity risk. Ithmaar Bank's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses. The Bank regularly monitors the concentration in the funding sources and ensures that the funding sources are adequately diversified.

The Asset Liability Management policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities including maintenance of HQLAs, prudent assets and liabilities maturity mismatch limits, and a mechanism of monitoring liquidity risk in the Bank.

25.1. Liquidity risk monitoring and reporting

ALCO monitors liquidity risk, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios including Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) as required under the provisions of Basel III and the funding maturity profile on a regular basis. Risk Management Department submits a quarterly report to the AGRMC which includes an analysis of Ithmaar Bank's adherence to limits in the various maturity buckets on a static and dynamic basis.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25. Liquidity Risk (Continued)

25.2. Liquidity Stress Testing

Stress testing of the liquidity risk profile of Ithmaar Bank based on certain Board approved parameters is also performed and presented to the AGRMC on a quarterly basis.

25.3. Liquidity Contingency Management

Ithmaar Bank has also a Liquidity Contingency Policy which provides guidelines to manage either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost.

25.4. Liquidity ratios:

	31 December 2017
Liquid assets to total assets	11.18%
Short term assets to short term liabilities	53.11%

26. Legal contingencies

At 31 December 2017, the Group had contingent liabilities towards customer and other claims aggregating to BD117.5 million. The management is of the view that these claims are not likely to result into potential liabilities. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;

27. Displaced Commercial Risk

Ithmaar Bank is exposed to rate of return risk in the context of its Profit Sharing Investment Accounts (PSIA) fund management. An increase in benchmark rates may result in Investment Account Holder (IAH)s' having expectations of a higher rate of return. As per mudaraba agreement, IAHs are eligible for the actual return earned on the assets and all losses in normal course of business on PSIA are borne by the IAHs, Ithmaar Bank may however, under market pressure pay a return that exceeds the rate that has been actually earned on assets funded by IAHs.

This increased rate of return risk may result in displaced commercial risk where Ithmaar Bank may forgo its share of profits as modareb to match the IAHs.

27.1 The following mechanism / guidelines are followed to avoid the displaced commercial risk in the Bank:

Expected Rate of Returns to IAHs

ALCO on periodic basis reviews the expected rates offered to IAHs to revise and adjust them with the benchmark rates. Business units offering PSIAs products monitors benchmark rates being offered by the relevant competitors and overall trend and recommend changes in the expected rates offered by Ithmaar Bank. This pro-active approach of adjusting the expected profit rates minimizes the displaced commercial risks.

Profit Equalization and Investment Risk Reserves (PER & IRR)

A central principle of Islamic finance is that an investor participating in a Modaraba contract must bear all losses in normal course of business and are eligible for actual rate of returns earned on the assets. However, Ithmaar Bank, to fulfill its fiduciary responsibility or to match benchmark rates or to avoid displaced commercial risk, creates reserves to make good such losses or meet the shortfall in expected returns. These reserves may be in the form of Profit Equalization Reserve and Investment Risk Reserves for PSIA Funds.

28. Gross income from Mudaraba and profit paid to Unrestricted Investment Accountholders:

	Percentage to Total URIA assets	31 December 2017
Income from unrestricted investment accounts	5.1%	62,190
Less: return to unrestricted investment accounts	-2.7%	(33,214)
Group's share of income from unrestricted investment accounts as a Mudarib	**2.4%**	**28,976**

For the period ended 31 December 2017 the return generated from unrestricted investment accountholders based on the average balance outstanding during the period stood at 5%. The return paid to unrestricted investment accountholders based on the average balance outstanding during the period at 2.9%.

PUBLIC DISCLOSURES CONTINUED

At 31 December 2017
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. Average declared rate of return on General Mudaraba deposits:

	31 December 2017
30 Days	1.10
90 Days	1.60
180 Days	1.85
360 Days	2.57

30. Movement in Profit Equalization Reserve and Investment Risk Reserve

	31 December 2017
Profit Equalization Reserve	
As at 31 December 2017	6,616
Amount appropriated as a percentage of gross income	NIL
Investment Risk Reserve	
As at 31 December 2017	6,767
Amount appropriated as a percentage of gross income	NIL

At 31 December 2017, the ratio of profit equalization reserve, investment risk reserve and provisions against equity of unrestricted investment accountholders stood at 0.6%, 0.6% and 1% respectively.

31 December 2017, the ratio of financings to URIA stood at 77%.

31 December 2017, the percentage of each type of Islamic financing to total URIA financing was as follows:

	Percentage Financing to Total URIA Financing
Murabaha and other financings	67.80%
Musharaka financing	16.51%
Assets acquired for leasing	15.69%

The following table summarizes the breakdown of URIA and impairment provisions

	31 December 2017
Exposure : Banks	306,840
Exposure : Non-Banks	921,147
Provisions : Non-Banks	11,094

31. Other disclosures

The audit fees charged and non-audit services provided by external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank's shareholders as per their specific request provided that these disclosures would not negatively impact the Bank's interest and its competition in the market.

Deposits and Unrestricted Investment Accounts held with the Bank in the Kingdom are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the CBB in accordance with Resolution No.(34) of 2010.

CORPORATE INFORMATION

Name of Company:	Ithmaar Bank B.S.C. (Closed)
Legal Form:	Ithmaar Bank B.S.C. (Closed) is a Bahrain-based Islamic retail bank that is licensed and regulated by the Central Bank of Bahrain and provides retail, commercial, treasury and financial institutions, and other banking services.
Company Registration Number:	CR 99336
Registered Office:	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P.O.Box 2820, Manama, Kingdom of Bahrain
Telephone:	+973 17585000
Facsimile:	+973 17585151
Email:	info@ithmaarbank.com
Website:	www.ithmaarbank.com
Accounting Year End:	31 December
Compliance Officer:	Hana Ahmed Al Murran – Head, Compliance and AML
Company Secretary:	Dana Aqeel Raees – Head, Legal Department and Company Secretary
Auditors:	PricewaterhouseCoopers ME Limited, P.O.Box 21144, Manama, Kingdom of Bahrain