



مصرف إبدار  
Ibdar Bank

## Delivering Global Opportunities

Annual Report 2017



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## **Ibdar Bank BSC(c)**

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His Royal Highness  
Prince Khalifa bin Salman  
Al Khalifa

The Prime Minister of  
the Kingdom of Bahrain



His Majesty King  
Hamad bin Isa  
Al Khalifa

The King of the Kingdom  
of Bahrain



His Royal Highness  
Prince Salman bin Hamad  
Al Khalifa

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

## CORPORATE PROFILE

Delivering Global Opportunities

Ibdar Bank BSC (c) is a fully licensed Islamic Wholesale Bank, regulated by the Central Bank of Bahrain. The Bank is active in the ethics driven debt and capital market providing Islamic Bond issuance, wealth management, alternative investments and other investment banking services. The Bank's roots stem back to 1981 and today Ibdar Bank is in the top tier of Bahrain's Islamic Wholesale Banks. Ibdar understands itself as the top Islamic challenger bank focusing on the Global Islamic Digital Economy (GIDE) providing vast sector expertise in Real Estate, Aviation, Trade & Manufacturing and FinTech. The Bank's shareholder base includes blue chip financial institutions from Kuwait, Bahrain, Saudi and the UAE.

Established in 2013 as a result of the merger of three Bahrain-based Islamic banks, Ibdar Bank is one of the largest Islamic Investment Banks by assets in the Kingdom of Bahrain and is strengthened by a diversified regional shareholder base.

### **Our vision**

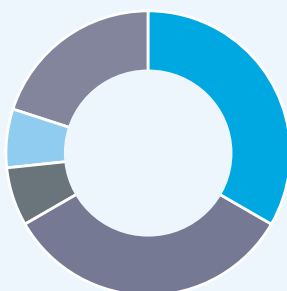
To be recognized as an industry leader in the provision of ethical and innovative Islamic Investment Banking services.

### **Our mission**

To enhance shareholder and stakeholder value, nurture long-term relationships with our clients and partners, support the development of our employees, add value to the communities in which we operate, and facilitate the growth and further elevation of the local, regional and global Islamic financial services industry.

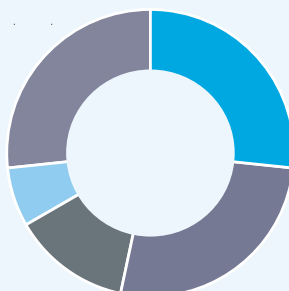
## SHAREHOLDERS OF THE BANK

### OUR INVESTORS BY GEOGRAPHY



- KUWAIT
- BAHRAIN
- QATAR
- KSA
- OTHERS

### OUR INVESTORS BY TYPE



- BANKS
- INVESTMENT COMPANIES
- HOLDING COMPANIES
- FUNDS
- OTHERS

### OUR INVESTORS BY PERCENTAGE OF SHARES

Kuwait Finance House - Kuwait	30.08%
Kuwait Investment Company	7.69%
Sukouk Holding Company	4.89%
Kuwait Finance House (Bahrain) B.S.C. (c)	4.71%
Qatar Islamic Bank	4.60%
Al-Bassam Investment Company W.L.L.	3.90%
Overseas Investment S.P.C.	3.46%
Bahrain Islamic Bank B.S.C.	3.37%
Samama Global Corporation	3.35%
Gulf Investment House	2.95%
National Amlak Company Ltd	2.79%
Islamic Corporation for the Development of Private Sector	2.30%
Others	25.91%

## BOARD OF DIRECTORS' REPORT

As we move into 2018, the Bank remains focused on generating recurring sources of revenue for Ibdar shareholders, and delivering yielding products and a stable cash flow for our investors with a concentration on less capital intensive investments.



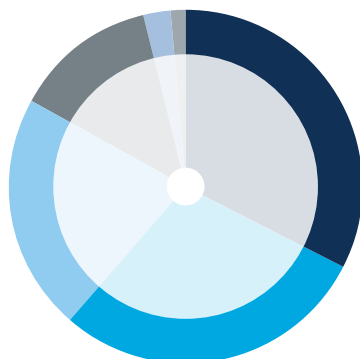
**Tareq Sadeq**  
Chairman

2017 saw Ibdar Bank on the path to profitability. With a clear business strategy and an experienced team, the Bank is forging strong partnerships and opening new business lines that are set to positively impact the bottom line.

The Directors of Ibdar Bank B.S.C (closed) (“the Bank”) have the pleasure in submitting their report to the shareholders accompanied by the consolidated financial statements for the year ended 31 December 2017.

The global economy witnessed a remarkably strong 2017 as loose monetary conditions, solid labor markets, healthy global trade and higher commodity prices drove the world economy to expand at an estimated 3.3% in 2017; the fastest growth seen since early 2011. In the United States robust consumer spending encouraged positive growth, whilst Q4 saw China develop at stellar rates. The UK, despite lagging behind in terms of the growth of other countries, ended the year in relatively good shape thanks to a solid performance in the service sector.

In Bahrain, the environment remained challenging. Factors such as lack of liquidity, the ratings downgrade of the Kingdom to B+ by Standard & Poor’s, and ongoing regional geopolitical instability continued to impact investor confidence and present a less than conducive environment for banks in Bahrain.



24%  
Investment in Securities

18%  
Aviation Suck

2%  
Financing

27%  
Real Estate-Lands

11%  
Other Assets

1%  
Real Estate-Buildings

Ibdar Bank, however, successfully navigated these challenges, and I am pleased to report that the Bank posted positive results for the 2017 fiscal year. The Bank achieved a net profit of USD 1.01 million (2016: Loss of USD47.7 million) and total revenues of USD 17 million for the year, (2016: USD 19.3 million). Operating income amounted to USD2.9 million (2016 USD 6.9 million), while the total asset base of the Bank decreased by 5% to USD367 million.

These encouraging results are attributable to successful exits from assets, operational revenues from real estate products, and internal streamlining and restructuring.

2017 saw Ibdar Bank on the path to profitability. With a clear business strategy and an experienced team, the Bank is forging strong partnerships and opening new business lines that are set to positively impact the bottom line.

During the year, in collaboration with leading US Property and Asset Managers, the Bank acquired a prime office building in Boston, USA for a total deal size of USD\$ 48 million. The single-let property is currently the headquarters of Amazon Robotics, a wholly owned subsidiary of Amazon Inc., and is situated in the second largest robotics cluster in the country in one of Boston's strongest sub-markets.

The Bank also exited three Q400 aircraft on lease to Falcon Aviation Services, marking the Bank's fourth successful aviation exit within the last two years, comprising the sale of 9 aircraft, and further underscoring the Bank as the reference aircraft leasing and investor platform in the GCC. To date, the Bank has completed USD 277 million in aviation transactions, and is working on bringing to market new transactions in the sector to replace the exited assets.

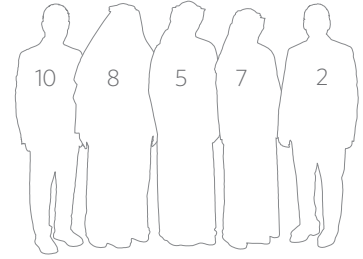
As we move into 2018, the Bank remains focused on generating recurring sources of revenue for Ibdar shareholders, and delivering yielding products and a stable cash flow for our investors with a concentration on less capital intensive investments. The Board is confident that the Bank is well positioned to further improve the balance sheet and execute more profitable global deals in 2018.

On behalf of the directors, I take this opportunity to express our sincere appreciation to the leadership led by HM King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince, Deputy Supreme Commander and First Deputy Premier Prince Salman bin Hamad Al Khalifa, the Ministry of Finance, the Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, investors, shareholders and employees of the Bank for their support, and we look forward to their continued backing in the fiscal year 2018.

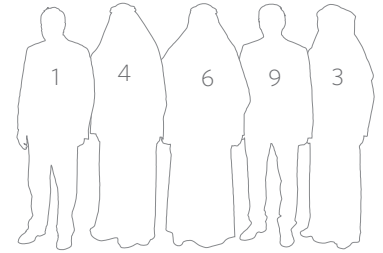
Tareq Sadeq  
Chairman

## BOARD OF DIRECTORS

1. Mr. Tareq Sadeq **Chairman**
2. Mr. Abdulkarim Ahmed Bucheery **Vice Chairman**
3. Mr. Abdulaziz Hassan Al Afaleq **Member**
4. Mr. Ebrahim Husain Ebrahim Al Jassmi **Member**
5. Mr. Hamad Mohammed Al-Sejari **Member**



- 6. Mr. Jamal Abdulla Al Saleem [Member](#)
- 7. Mr. Jasem Al-Yaseen [Member](#)
- 8. Mr. Khalid Al Maarafi [Member](#)
- 9. Mr. Mohamed Nooruddin [Member](#)
- 10. Dr. Mohamed Kameshki [Member](#)



## BOARD OF DIRECTORS PROFILE

### 1. Mr. Tareq Sadeq

#### Chairman

Tareq Sadeq is a Fellow Chartered Accountant with a career of more than three decades spanning the Middle East and Africa. His career began in 1979 with Ernst & Young, and for the last 15 years he has held various leadership roles including being a senior member of the MENA Leadership Team, an Advisory Leader and Accounts and Business Development Leader for the Middle East and North Africa region, and prior to that Office Managing Partner for the Bahrain office of Ernst & Young. Mr. Sadeq manages a boutique financial consultancy firm in Bahrain to provide specialist advisory services to niche clients in the financial services sector as well as servicing high net worth individuals. Currently he sits on the Boards of Ahli United Bank Kuwait, Al Zayani Investments Bahrain and Bahrain International Golf Course Company BSC (c) as Independent Director.

### 2. Mr. Abdulkarim Ahmed Bucheery

#### Vice Chairman

Abdulkarim Bucheery is a well versed banking professional who brings 40 years of in depth experience to the board. Mr. Bucheery is Group Chief Executive Officer of BBK, the Vice Chairman of Naseej Co, and a Board member of Bahrain Credit Facilities Co. (BCFC), in addition to his membership on the board of a number of Governmental related bodies. Prior to these postings, he was also the Chairman of Credimax, the Chairman of Capinnova Islamic Investment Bank, and a Board member of Securities and Investment Co. (SICO), Deposit Protection Scheme of the CBB, the Chairman of the Bahrain Associations of Banks (BAB), G 4 General Trading WLL, Dubai, and a Board member of INJAZ Bahrain. Mr. Bucheery served with Gulf International Bank (GIB) as an Executive Vice President (EVP) and Head of Institutional Banking for 23 years. He has received a number of industry accolades for his achievements in the financial services industry including "Best Banker" -2009 by World Finance, London and was included in the Top 100 CEOs in the Middle East 2016 by INSEAD and Trends, Dubai. Mr Bucheery holds a BSc in Economic Sciences from Aleppo University in Syria.

### 3. Mr. Abdulaziz Hassan Al Afaleq

#### Member

Engineer Abdulaziz Hassan Al Afaleq is Partner, Board Member and Chief Executive Officer of Al-Kifah Holding Company, a diverse and integrated construction and investment power house based in the Kingdom of Saudi Arabia. He is also the former Chairman of Al Fateh Sport Club Al-Ahsa. Mr. Al Afaleq is a Mechanical Engineer and holds an MBA from King Fahd University of Petroleum and Minerals.

### 4. Mr. Ebrahim Husain Ebrahim Al Jassmi

#### Member

Ebrahim Al Jassmi is an experienced banker with more than 35 years in both the Islamic and conventional banking industry, having worked with a number of prominent financial institutions in the Kingdom of Bahrain. Mr. Al Jassmi is a board member of Bahrain Islamic Bank and board member of Takaful International Company. Previously, he was a board member of First Energy Bank and Khaleeji Commercial Bank (KHCB). At KHCB he also held the position of Chief Executive Officer from 2004 to 2012. Prior to joining Khaleeji Commercial Bank, he was the Chief Executive Officer of the Liquidity Management Centre LMC, Bahrain. Mr. Al Jassmi also worked with Shamil Bank, Arab Banking Corporation, ABC securities and BBK Financial Services Company. He holds a B.S degree in Economics and an MBA.

### 5. Mr. Hamad Mohammed Al-Sejari

#### Member

Hamad Mohammed Al-Sejari is a dynamic Islamic banker with diverse experience in various facets of Islamic banking. Mr. Al-Sejari has been an active player in the investment banking industry for the past 12 years leading numerous innovative Shari'a compliant transactions for Kuwait Finance House ("KFH"). As well as expertise in originating, sourcing, developing, structuring, negotiating, syndicating, and executing various Islamic products, his extensive experience includes mergers, acquisitions, valuation advisory engagements and private placements. He also served as a Board Director in several companies / funds across sectors such as Aviation and Shipping. Mr. Al-Sejari holds a Bachelors in Civil Engineering with a minor in Business Administration from Old Dominion University, USA.

**6. Mr. Jamal Abdulla Al Saleem****Member**

Mr. Jamal Abdulla Al Saleem is a board member of Kuwait Investment Company, the former Chairman of Almasar Leasing and Investment Company, the Vice Chairman of Kingdom Electricity Company in Jordan and Executive Vice President of the Privatization Holding Company in Kuwait. Throughout his career, Mr. Al Saleem gained extensive experience in accounting and finance, and has also been heavily involved in establishing and overseeing investment companies in the region. He has over 30 years of experience in accounting and finance in the GCC region, and has conducted research to enhance the performance of GCC institutions, as well as promote Arab economic integration. As an avid member of the Kuwait Accountants and Auditors Society, Mr. Al Saleem has contributed specific research on the effects of voluntary demand of the external auditor in Kuwait. Mr. Al Saleem has previously held and continues to be an active member of the Boards and Executive Committees for numerous GCC financial institutions and investment companies. Mr. Al Saleem holds a BA degree in Accounting from Kuwait University, and an MSc degree in Accounting achieved with highest honors from Oklahoma City University, USA.

**7. Mr. Jasem Al-Yaseen****Member**

Mr. Al-Yaseen is an experienced banking executive with a career of more than 27 years spanning conventional and Islamic banking. He is the Executive Manager of the Treasury Sales Desk at Kuwait Finance House - a post which he has held for the last decade. Prior to his appointment with KFH, Mr. Al-Yaseen served as a Senior Dealer at Treasury Corporate Desk in Commercial Bank and as a Senior Dealer with Gulf Bank. He holds a Bachelor's Degree in Industrial Engineering from the University of Miami, USA.

**8. Mr. Khalid Al Maarafi****Member**

Mr. Khalid Al Maarafi brings more than 33 years of extensive experience in business management and in the banking and financial services industry. Currently Executive Manager and Head of the Retail Banking Group at Kuwait Finance House-Bahrain, he is also the Chairman of Al Enma'a House for Real Estate, and a non-Executive Director on the Boards of Directors of various other companies. Mr. Rafea has held several positions at the Ministry of Finance and at the Ministry of Industry & Commerce in Bahrain. He holds a Bachelor's in Accounting from the University of Bahrain, and is a Certified Public Accountant (CPA).

**9. Mr. Mohamed Nooruddin****Member**

Mr. Mohamed Nooruddin is the Chairman of Newbury Investments W.L.L, a privately owned advisory firm in Bahrain, and a board member at Tadamon Capital in Bahrain and at Itqan Capital in Jeddah. He has over 30 years of experience in both the conventional and Islamic banking sector and has a wide networking base in the region. He was an Advisor to the CEO of Arcapita Bank in Bahrain after being the General Manager of the company from 2003 to 2008. Prior to Arcapita, Mr. Nooruddin held key management roles in various reputed financial institutions in Bahrain including Gulf International Bank (GIB) and Bahrain International Bank. He holds a BSc. in Business Administration from the University of Bahrain and has attended various executive financial training programs in Harvard, INSEAD, and the University of Virginia.

**10. Dr. Mohamed Kameshki****Member**

Dr. Mohamed Kameshki is a renowned Bahraini business consultant, social responsibility advocate and business strategist with more than 25 years of professional experience. Dr. Kameshki was the Assistant Secretary General of the Bahrain Centre for Research & Studies (BCSR), where he served for almost twenty years. Over the past decade, Dr. Kameshki has served on several boards, including the Bahrain Flour Mills Co. and Bahrain Food Holding Company. Currently, he is a board member of Aluminum (ALBA), the Vice Chairman of the board of Saleh Abdulla Kameshki & Sons B.S.C. (c) and Chairman of Mawteni Trading Company W.L.L. Dr. Kameshki holds a B.Sc. (Honours) in Engineering from Staffordshire University, a M.Sc. in Management Science & Operational Research from Warwick University Business School, and a Ph.D. in Business Management (New Product Development) from Loughborough University Business School. He has also published a number of research papers in regional journals and participated in international conferences particularly those exploring issues related to current business and economic situations.

## CEO MESSAGE

2017 marked the beginning of a new era for Ibdar Bank as we forged global partnerships, formulated a new business strategy, and laid the foundation to become an Islamic finance leader based on digitisation and the use of the latest Fintech.



**Ayman Sejiny**  
Chief Executive Officer

“By building on Ibdar’s track record and execution platform, I am confident that Ibdar is well placed to deliver the right opportunities to our investors, and ensure the Bank continues to build its reputation as one of the regions’ most ethical, innovative and results-driven Islamic institutions.”

2017 marked the beginning of a new era for Ibdar Bank as we forged global partnerships, formulated a new business strategy, and laid the foundation to become an Islamic finance leader based on digitisation and the use of the latest Fintech. It is an exciting and transformative time to be part of the Islamic banking industry, and I am honoured to be working with the Ibdar team as we strive to strengthen the Bank’s footprint in the Islamic banking and investment domain.

During 2017 the Bank built on the enhanced investment activities of 2016 and deployed a total of USD 20 million. Aligned with the Bank’s strategy to focus on allocating investments within international real estate markets, this included the acquisition, in collaboration with Lincoln Property Company and Ritz Banc Group; leading US Property Manager and Asset Manager respectively, of a prime office building in Boston, USA. The property, which is currently single-let as the Headquarters of Amazon Robotics a wholly owned subsidiary of Amazon Inc., is set to provide diversified, stable and attractive returns to the Bank’s investors.

The Bank also exited three Q400 aircraft which were acquired in June & July 2015 and leased to Abu Dhabi based Falcon Aviation Services. The exits, which further emphasize Ibdar’s execution capability and its ability to provide clients with

income generating assets, marks the fourth aviation exit by the Bank within the last two years, comprising the sale of 9 aircraft. To date the Bank has completed USD 277 million in aviation transactions.

During the reporting period, the Capital Markets and Treasury division was boosted with the appointment of a senior executive to the team who is building the business with a focus on Sukuk issuance and other fixed income and equity products related to capital markets.

Catering to market demand, the year also laid the foundation for the offering of Shari'ah compliant products and services for family offices and Awqaf entities.

Throughout the year, and in line with a continued concentration on monetizing legacy assets, the Bank successfully exited assets worth around USD21 million and will continue to monitor legacy assets and identify best available exit options.

Confirming the success of initiatives undertaken to transform the Bank through the implementation of a new business strategy, international credit rating agency Capital Intelligence Ratings, assigned the Bank a 'BB' Long-Term Foreign Currency Rating and 'B' Short-Term with a 'Stable' Outlook rating. The agency ascribed the ratings to Ibdar Bank's positive revenue-generating ability, which is underpinned by multiple sources of revenue, its solid

capital adequacy, comfortable liquidity position, extended debt maturity profile and low leverage, in particular the limited borrowings in relation to total capital.

2017 also saw the introduction of Fintech to Ibdar Bank aligned with the Bank's vision to lead the transformation in Islamic investment banking. The Bank has set out a comprehensive plan for automating and digitising operations and processes to enhance efficiency, reduce costs and prepare the platform to engage FinTech, and cater to the needs of a Global Islamic Digital Economy (GIDE). The Bank's digital transformation will be comprehensive and will permeate across our Back-, Middle-, and Front-Office. Currently the Bank is in the process of building its Digital Finance platform vertical, and will launch outstanding Fintech driven products during 2018.

While 2017 was a challenging year for the GCC economies, Ibdar Bank managed to recognise a profit of 1.01 million for the first time in 3 years, testament to the success of our turn-around strategy and a first reward of the team's relentless effort. Our ultimate goal is to generate maximum value and annual profit for our shareholders guided by the Board of Directors and CBB regulations.

Going forward into 2018 we remain dedicated to rebuilding the Bank's operating profitability. By building on

#### Investment Activity

## US\$ 20 m

During 2017 the Bank built on the enhanced investment activities of 2016 and deployed a total of USD 20 million.

#### Aviation Transactions

## US\$ 277 m

To date the Bank has completed USD 277 million in aviation transactions.

Ibdar's track record and execution platform, I am confident that Ibdar is well placed to deliver the right opportunities to our investors, and ensure the Bank continues to build its reputation as one of the regions' most ethical, innovative and results-driven Islamic institutions.

In conclusion, and on behalf of the Shareholders, Board and management of Ibdar Bank, I would like to express my sincere appreciation to the wise leadership of the Kingdom of Bahrain, His Royal Majesty King Hamad bin Isa Al Khalifa, His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa and His Royal Highness the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa. We would also like to acknowledge the strong support, policies and oversight provided by the Ministry of Finance, the Ministry of Industry and Commerce, and the Central Bank of Bahrain. I also extend my appreciation to the Board of Directors for their valuable guidance, our loyal clients and dedicated employees. It is only with the continued support of all of our stakeholders that Ibdar Bank can achieve sustainable success.

**Ayman Sejiny**

Chief Executive Officer

## MANAGEMENT TEAM



**Ayman Sejiny**  
Chief Executive Officer



**Ikbal Daredia**  
Senior Executive Director,  
Capital Markets & Treasury



**Hussain Jamsheer**  
Executive Director,  
Investor Relations



**Yasser Abbady**  
Senior Executive Director  
Business Advisory



**Bassam Kameshki**  
Director,  
Real Estate



**Nada Kazerooni**  
Director,  
Capital Markets and Treasury



**Nader AlQassab**  
Director,  
Post Acquisition



**Hella Fakhro**  
Director,  
Aviation and Alternative  
investments



**Fahim Shelot**  
Director,  
Aviation and Alternative  
investments



**Ahmed Mostafa**  
Chief Financial Officer



**Khalid Javaid**  
Executive Director  
Legal & Board Secretary



**Farrukh Zareef**  
Director,  
Risk Management



**Aysha Aljalahma**  
Director,  
Compliance & MLRO



**Shaikh Abdullah Al-Khaldy**  
Director,  
Shari'ah Supervision & Advisory



**Victoria McFarlane**  
Director,  
Corporate Communications



**Bassam Awdi**  
Director,  
Internal Audit



**Sama Al Alawi**  
Director,  
Human Resources

## INVESTOR RELATIONS



(from Left to Right)

AbdulRahman Mohammed  
Director

Rashid Sabt  
Senior Manager

Hussain Jamsheer  
Executive Director

Mohammed Al Mohammed  
Senior Manager

Hajar Al-Awadhi  
Officer

## CAPITAL MARKETS & TREASURY



(from Left to Right)

Ameena Fulad  
Senior Officer

Dana Zubari  
Manager

Nada Kazerooni  
Director

Ikbal Daredia  
Senior Executive Director

Nabeel Ali  
Director

Mohammed AlQassab  
Officer

## REAL ESTATE



(from Left to Right)

Juweria Amin  
Manager

Mohamed AlQooz, CFA  
Senior Manager

Bassam Kameshki  
Director

Ehsan Musayeb  
Manager

Austin Eleferia  
Senior Officer

## INTERNAL AUDIT



(from Left to Right)

**Bassam Awdi**  
Director

**Sara AlHashimi**  
Manager

## POST ACQUISITION



(from Left to Right)

Mariam Al Shaikh, CFA  
Manager

Nader AlQassab  
Director

## AVIATION AND ALTERNATIVE INVESTMENTS



(from Left to Right)

Jehad Nabeel Al Tattan  
[Senior Officer](#)

Hella Fakhro  
[Director](#)

Fahim Shelot, CFA  
[Director](#)

## INVESTMENT PHILOSOPHY

Ibdar Bank targets unique opportunities on behalf of investors with the ultimate objective to achieve capital growth and maximize profitability.





### Investment Philosophy

We shape detailed and well-designed investment strategy that targets resilient asset class sectors alongside the right partners. Alignment of interest is a vital element in any investment, and therefore we reflect our commitment by co-investing in every deal. Effective post-acquisition/investment management is a core component of our performance.

### Core Services

- Real Estate Investment
- Aviation & Alternative
- Post Acquisition
- Asset Management
- Financial Solutions
- Investment Advisory
- Capital Markets & Treasury
- Investor Relations

1. Cumberland
2. Q400 Aircraft
3. Amazon Robotics

## MANAGEMENT REVIEW OF OPERATIONS



1



2

3



1. Cumberland
2. Amazon Robotics
3. Angel Garden

Ibdar Management operates the Bank in an effective, ethical and legal manner and to the highest levels of transparency and professionalism. The operational strategy has been designed to produce significant and consistent value for its shareholders in accordance with the Bank's policies and standards.

### Operating Environment

The global economy witnessed a much stronger-than-expected 2017 as loose monetary conditions, solid labor markets, healthy global trade and higher commodity prices drove the global economy to expand at an estimated 3.3% in 2017; the fastest growth seen since early 2011.

The United States enjoyed healthy growth on the back of robust consumer spending - driven by a tight labor market and rising housing prices - whilst China also contributed positively, expanding at an astronomical rate of 6.8% in Q4 whilst also showing encouraging signs of a steady move towards a more balanced economic model.

In the United Kingdom, a quarter-on-quarter analysis shows that the economy was in relatively good shape in Q4, on the back of a solid performance in the service sector, however Britain has fallen to the bottom of the table as growth in other countries has picked up. In November 2017, the Bank of England increased interest rates for the first time in a decade.

World Bank forecasts global economic growth to edge up to 3.1 percent in 2018 a rate that is forecast to be sustained, or even speeded up in emerging markets and developing economies due to an expected rebound in commodity exporters.

The Middle East and North African Economy (MENA) witnessed weak growth in 2017. Factors such as the oil cap deal signed by key producers, the end of the commodities super-cycle, and the Qatar Crisis weighed heavily on the region; effecting growth opportunities for banks and further creating liquidity issues. In Bahrain, the environment posed both challenges and opportunities for Banks. Government lending in local markets ensured liquidity remained tight and fiscal measures inflated the cost of doing business, resulting in a higher rate of potential nonperforming loans (NPLs). The subsequent ratings downgrade of the country to B+ by Standard & Poor's impacted international lenders, whilst regional geopolitical instability remained a depressor of business confidence. However, there were opportunities for banks in Bahrain, particularly in terms of sovereign lending and in the financing of key regional infrastructure projects.

### Capital Markets & Treasury

Treasury manages a proprietary Sukuk portfolio that has over the past years generated returns in excess of the benchmarks. Treasury is a market maker for 13 Sukuk publishing prices on a daily basis on Bloomberg.

During the reporting period, the focus remained on expanding bank business lines through Sukuk trading and Money Markets, and aligned with this, Treasury forged relationships with over 40 different new counterparties regionally and globally effectively expanding credit lines that will support the leveraging of the bank's Sukuk portfolio.

In 2018, Treasury will focus on active Sukuk trading and the introduction of new products for investors such as Discretionary Portfolio Management.

Capital Markets on the other hand is now actively involved in both debt and equity primary issuances. Capital Markets also offers syndications, origination, structuring, distribution and ratings advisory.

### Real Estate

The Bank's Real Estate business overcame the challenges of a market adjusting to the US election and the repercussions of BREXIT to acquire new deals, launch UK and US investment deals funded in 2016, and establish strong partnerships with international asset managers.

Aligned with a focus on single-let, risk-adjusted deals that provide investors with a stable cash profile and protect against interest rate increases, the Bank, in collaboration with Lincoln Property Company and Ritz Banc Group - leading US Property Manager and Asset Manager respectively - successfully acquired and closed the funding on a prime office building in Boston, USA, which is single-let as the headquarters of Amazon Robotics, a wholly owned subsidiary of Amazon Inc. for a total deal size of USD\$ 48 million. The deal further expands the Bank's reach in the US and underscores growing confidence in Ibdar as a leading investment partner.

The division also supported the launch to investors of the Purpose Built Student Accommodation (PBSA) asset in Southampton, UK, and Multi-Family property in Maryland, USA.

As per investor demand, the Bank's Real Estate team will continue to source deals in the US, UK and Europe that provide investors with stable cash flows and work with partners that have a solid track record. The Team will work closely with the Bank's Wealth Advisory division to gain investment mandates that facilitate less capital intensive real estate investments.

## MANAGEMENT REVIEW OF OPERATIONS (Continued)

### Aviation & Alternative Investments

2017 witnessed the Aviation & Alternative Investments team building on Ibdar's earlier success in the aviation sector and further cementing the Bank as the reference aircraft leasing investment partner in the GCC.

Highlighting its execution capability and strong track record of positive returns, the division executed the Bank's largest exit to date by selling the portfolio of three Bombardier Q400 aircraft leased to Falcon Aviation Services. The deal, which marks the fourth successful aviation exit by the Bank within the last two years, resulted in a double digit IRR to the Bank. The Bank also sold a 777-200 ER aircraft after the end of its lease with Emirates Airlines.

In addition to the aviation transactions, the team completed a short term high yielding Murabaha facility to a fast growing oil and gas services firm in the region.

The Team will remain focused on generating recurring sources of revenue for the bank and on yielding products for our investors. New aviation transactions are in the pipeline and the team is working to bring these to market during the first half of 2018. The Bank continues to build its aviation vertical to satisfy investor demand for yielding products and is well positioned to execute global deals in the near future.

### Post-Acquisition

The Post Acquisition Team maintained its steadfast efforts on monetizing legacy assets, and as a result, successfully exited assets worth around USD21 million - Achieved revenues of USD4.6 million during the reporting period.

2017 saw the Division exit four real estate properties in Bahrain, close the sale of a Bahrain based petrochemical carrier company, and partially exit from the Bank's investment in a Kuwait-based financial services company.

Going forward, the Post Acquisition Team will continue to monitor the legacy assets and identify best available exit options, either by restructuring, negotiating asset swaps, or outright sale with a focus on extracting value from the legacy assets and reallocating sale proceeds towards productive assets that offer higher returns and are in line with the Bank's risk-return levels.

### Asset Management

Throughout the year, the Asset Management Team concentrated on enabling Bank investments that generate recurring revenue with steady cash flows, in line with the Bank's dedication to deliver long-term sustainable returns for the Bank's investors.

A memorandum of Understanding was signed, in partnership with the Islamic Corporation for the Development of the Private Sector (ICD) and Tamkeen, to launch a USD 100 million Bahrain SME fund, a Shariah compliant mezzanine private equity Fund which will invest in Bahrain's Small and Medium Enterprises (SME's).

The Asset Management business remains committed to providing valuable diversification to client's portfolios, due to low correlations to traditional investments, and the delivery of investment opportunities that offer higher risk-adjusted returns.

### Compliance & Corporate Governance

The Bank is committed to the full compliance of all Central Bank of Bahrain (CBB) Rules and Regulations, and has created a corporate governance structure that reflects the highest standards of independence, oversight and transparency.

The Bank remained in compliance with all regulatory requirements during the reporting period; submitting all reports and requirements on time whilst also responding to a number of CBB consultation papers.

The Bank strictly adheres to the Corporate Governance Code of the Kingdom of Bahrain and the High-level Control ("HC") Module of the CBB Rulebook, which saw extensive changes during 2017, of which all were acknowledged and addressed.

Changes to the Board of Directors membership included the resignation of Mr. Ahmed Al Balooshi, who was replaced with Dr. Mohammed Kameshki in both the Board of Directors and the Audit, Risk & Compliance Committee.

### Know Your Customer

The Bank complies with Financial Crimes Module of Central Bank of Bahrain's rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies.

The Bank places the utmost importance in understanding its customers and their financial activities and has implemented international standard systems to support monitoring activities. Proper due diligence is conducted to ensure that financial activities of its customers are performed in accordance with the guidelines issued by the regulatory authorities.



Ibdar Management operates the Bank in an effective, ethical and legal manner and to the highest levels of transparency and professionalism.

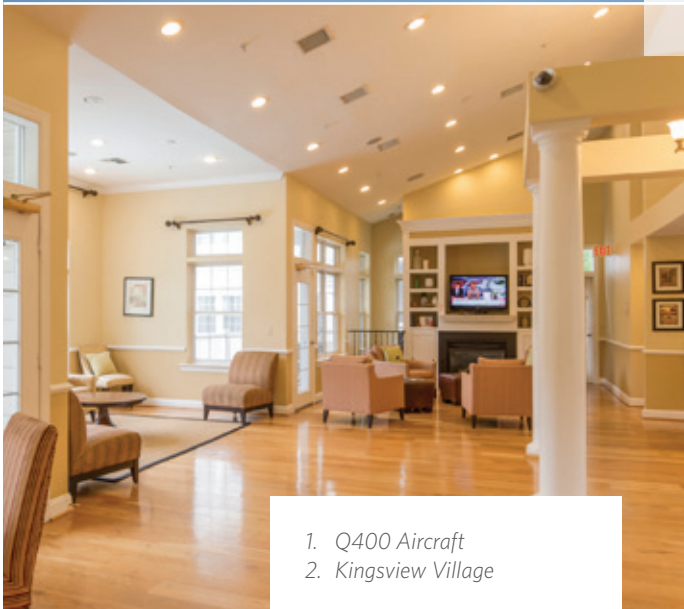
## MANAGEMENT REVIEW OF OPERATIONS (Continued)



1



2



1. Q400 Aircraft  
2. Kingsview Village



### Risk Management

The Risk Management Team worked to ensure optimal effectiveness of the Bank's business strategy in 2017. In particular, improving the Bank's competitive position and facilitating the introduction of new products, fee based business initiatives, and ensuring the Bank is prepared to address any incidents that may cause disruptions to business objectives.

During the reporting period, Risk Management conducted an annual, business wide risk survey, as well as a Top Risks Review for each bank investment with the Investment, Credit and Risk Committee. This was in addition to regular assessments of the business environment, including trend-line of key risk indicators and internal business indicators, and a review of key operational risks and actions based on inputs from the internal risk register, external assessments, internal audit findings and incidents.

Throughout the year the division monitored key developments in the regulatory environment relating to Basel III and new Central Bank of Bahrain regulations and impact assessments, and, aligned with a dedication to strengthen the Bank's risk culture, held a risk orientation session for all bank staff.

### Information Technology

The Information Technology Team continues to support the operational efficiency and security of the Bank. During the reporting period, the team completed the moving of all physical servers to a virtual environment, implemented a new Asset Management system, and an Environment monitoring system in the Data Centre.

The Division moves into 2018 committed to further strengthening the cyber security countermeasures and to streamlining bank processes and procedures. This will include the integration between the Core Banking and SWIFT systems in order to enhance efficiency through reduced human error, the implementation of a specialized backup solution for virtual environments, and the migration to a new CRM system as part of the Bank's Fintech Project.

### Human Capital

The Bank's Human Resources Division continued to invest in providing job specific training and development opportunities to its staff in 2017, with more than 90% of employees participating in training programmes throughout the reporting period. Courses held during the year included a Leadership Development Programme, a Real Estate Finance and Investment Professional course, an Islamic Investment Bankers' Masterclass, and workshops on Sharia'ah Compliance, Corporate Governance, First Aid and Self-Awareness. The Division also fully utilized Tamkeen's Taqdeer, an employment reward program designed to reward companies that have exceeded their Bahrainization rate, to enhance operational effectiveness. The Payroll module of the new HRMS, which was launched in 2016, went live in 2017, substantially elevating the efficiency of the department's payroll processes and procedures.

Towards 2018, the Bank remains committed to attracting, retaining and developing the best local talent, supporting the development of an effective corporate culture, and aligning the organizational structure and skills to meet current and future business needs. In line with this mission, a comprehensive bank-wide Fintech development programme is planned to equip staff with the skills they need to succeed in today's digital banking space.

## BOARD COMMITTEES

In 2016, the Audit Committee and Risk Committee merged to form the Audit, Risk & Compliance Committee

### Audit, Risk & Compliance Committee

#### Role

To review the Bank's financial reporting process, internal controls, and process for monitoring compliance with policies, procedures, laws and regulations and the Bank's own Code of Business Conduct.

#### Members

- Dr. Mohamed Kameshki
- Khalid Al Maarafi
- Abdulaziz Al Falaq

### Executive Committee

#### Role

Consider specific matters delegated to it by the full Board and make recommendations thereon to the Board or decisions based on authorities specifically delegated by the Board.

#### Members

- Ebrahim Al Jassmi
- Hamad Al Sejari
- Jassem Al Yaseen
- Mr. Abdulkarim Ahmed Bucheery

### Nomination, Remuneration & Governance Committee\*

#### Role

The Remuneration Committee reviews and approves (according to the guidelines set by the Board) policies and procedures for the remuneration of Board members, Committees members, executive and nonexecutive employees.

#### Members

- Tareq Sadeq
- Mohammed Nooruddin
- Jamal Al Saleem

\* During 2017 the Corporate Governance Committee did not include a Shari'ah Scholar who is a member of the Shari'ah Supervisory Board in accordance with the guidance HC-9.2.4 (b).

## MANAGEMENT COMMITTEES

The two management committees at Ibdar Bank support the Management in managing and overseeing the Bank's activities, and in proposing new strategies, policies and procedures to the Board. These committees are:

### Asset and Liability Committee

#### Objective/Function

The Asset and Liability Committee determines the appropriate levels of liquidity, and ensures that all future commitments are funded in the most appropriate and cost-efficient manner. The Committee also ensures that the Bank fully adheres to the requirements of the CBB regarding capital, liquidity, and mismatched risk. It ascertains that approved investment deposits limits are not exceeded, and Treasury management and dealing activities are within the policy guidelines set by the Board. Furthermore, it monitors and supervises the overall balance sheet structure.

#### Members

- Chief Executive Officer  
Chairman
- Chief Investment Officer  
Member
- Chief Financial Officer  
Member
- Head of Capital Markets and Treasury  
Member
- Head of Risk Management  
Member

### Investment, Credit and Risk Committee

#### Objective/Function

The Investment, Credit and Risk Committee is a senior management committee responsible for managing and supervising all activities related to investments, credit and risk management.

#### Members

- Chief Executive Officer  
Chairman
- Chief Investment Officer  
Member
- Chief Financial Officer  
Member
- Head of Risk Management  
Non-Voting Member
- Head of Legal  
Non-Voting Member
- Head of Capital Markets and Treasury -  
Non-Voting Member

## SHARI'AH SUPERVISORY BOARD



His Eminence Shaikh Dr. Abdul Sattar  
Abdul Kareem Abu-Ghuddah

### Chairman

Dr. Abdul Sattar Abdul Kareem Abu-Ghuddah joined the Shari'ah Supervisory Board of Ibdar Bank in 2013. He holds two Bachelor degrees in Law and Shari'ah from the University of Damascus; and two Master Degrees in Shari'ah and Hadith, and a PhD in Comparative Fiqh from the Al-Azhar University in Egypt. Dr. Abu-Ghuddah is an active member of the Islamic Fiqh Academy, which evolved from the Organization of Islamic Conference in Jeddah, KSA. He is also a member of both the Accounting Standards Board and Shari'ah Board of AAOIFI in Bahrain.

Dr. Abu-Ghuddah teaches Fiqh, Islamic studies and Arabic in Riyadh and has performed the valuable task of researching information for the Fiqh Encyclopaedia compiled by the Ministry of Awqaf and Islamic Affairs in Kuwait.

He is currently the chairman and member of the Shari'ah supervisory boards of numerous international and regional Islamic banks and financial institutions, including the Shari'ah Board of the Central Bank of Bahrain. In addition to his participation in Islamic finance conferences, Dr. Abu-Ghuddah is also very prominent for his publications in the various topics of Islamic banking.



His Eminence Shaikh Adnan Abdulla  
Al Qattan

### Board Member

Shaikh Adnan Abdulla Al Qattan holds a Bachelor's degree in Islamic Shari'ah from the Islamic University, Madinah, Saudi Arabia, and a Master's degree in Quran and Sunnah from the University of Um Al-Qura, Makkah, Saudi Arabia.

Shaikh Al Qattan is the Chairman of Bahrain's Hajj Mission, President of the Supreme Shari'ah Appeal Court, and a member of the Supreme Council for Islamic Affairs. He is also the President of the Board of Trustees of Al Sanabel Orphans Care and Vice- President of the Royal Charity Organization.

Shaikh Al Qattan serves in the Shari'ah Supervisory Board of various Islamic banks and financial and investment institutions, in addition to being Friday sermon orator at Al- Fatih Grand Mosque in Manama (Bahrain).



His Eminence Shaikh Dr. Nidham Mohammed  
Saleh Yaquby

### Board Member

Shaikh Nidham Mohammed Saleh Yaquby holds a Bachelor's degree in Economics and Comparative Religion from McGill University, Montreal and PhD from Lahaye University.

Shaikh Nidham obtained his Shari'ah knowledge and teachings from prominent Shari'ah scholars in the Gulf region and achieved their highest valuation. Shaikh Nidham is the chairman and member in numerous Shari'ah supervisory boards of international Islamic banks and financial institutions including the Dow Jones Islamic Index.

He is a member of the Shari'ah board of Central Bank of Bahrain, the AAOIFI Shari'ah Board, and the Islamic Rating Agency Shari'ah Board. Shaikh Nidham is also very prominent for his participation, contribution in international Islamic finance conferences, and offering financial solutions and instruments for contemporary financing schemes. Shaikh Yaquby is a visiting professor at the International Islamic University, Malaysia.

## SHARI'AH SUPERVISORY BOARD REPORT



3 Jumada Al-Thani 1439  
19 February 2018

Thanks to Allah Almighty, and Prayers and Peace be upon His Messenger, our Prophet Mohammed and all his Relatives and Companions until the Judgment Day,

After completing the financials on 31/12/2017, we report the following:

Shareholders:

We have studied the products introduced by the Bank and verify the extent of the Bank's commitment to the provisions and principles of Islamic Sharia laws, and with the specific fatwas, rulings and guidelines issued by us.

Since the Executive Management takes the responsibility to ensure that the Bank's commitment to act in accordance with the rules and principles of Sharia law, our responsibility is limited to declaring and stating the Sharia opinion on the banking and investment transactions that were presented to the Sharia Supervisory Board.

Ibdar Bank's operations have been discussed and reviewed by the Sharia Supervisory Board and its executive members, through six meetings during the year, beside the daily engagements of the internal Sharia Supervision and Advisory Department, where a full thorough reviews

for more than 140 new documents, agreements, guidelines and policies, that were introduced by the management or transferred from the Board of Directors to the Sharia Supervisory Board.

The scope of our review covered the investment projects, such as, investments in Aviation, Private Equities, Real Estate investments, Shipping, Sukuks & Money Market and Funds.

The Sharia Supervisory Board also responds to the inquiries by the concerned departments in the Bank directly, or through its executive member, as well as declaring opinions and providing advice, when requested to do so, on new contracts and financial transactions structures.

### In our opinion:

1. The Bank's contracts and transactions reviewed during the year ended 31 December 2017 are in compliance with the Islamic Sharia rules and principles, save for a few transactions which have been rectified at a later stage.
2. The allocation of profit and losses relating to investment accounts conform to the basis that have been approved by us in accordance with Islamic Sharia rules and principles;

3. Paying Zakat is the responsibility of the Shareholders, The basis of Zakat calculation and estimation is in compliance with Islamic rules and with accordance to AAOIFI Sharia Standard. The exact amount of Zakat per share shall be announced to the Shareholders in separate report.
4. Any observations made where settled by the management as directed by the SSB.
5. Impure earning were identified during the year 2017, and these were fully disbursed for charity.

We pray to Allah almighty to grant the Bank all success and further compliance with the principles of Islamic Sharia.

Prayers and peace be upon our prophet Mohammed peace be upon him, His Relatives and Companions.

Dr. Abdulstar Abu Ghudda  
SSB Chairman

Shaikh /Adnan Al-Qattan  
SSB Member

Shaikh Dr. / Nizam Yacoby  
SSB Executive Member

# LEADING THE TRANSFORMATION IN ISLAMIC INVESTMENT BANKING

We focus on the creation of sustainable value by reaching out to investors across the globe. Leveraging pioneering technologies allows us to use data to better shape strategies that meet the real needs of today's investor.

We are driven by the expectations of our connected world; elevating the banking experience while responsibly investing to ensure the Islamic banking industry remains a driver of positive change for generations to come. Based in the Kingdom of Bahrain, a burgeoning FinTech epicenter, Ibdar Bank is leading Islamic investment banking into a bright new era.





## CONSOLIDATED STATEMENT OF FINANCIAL STATEMENTS

### CONTENTS

- 35 Independent Auditors' Report to the Shareholders
- 36 Consolidated Statement of Financial Position
- 37 Consolidated Income Statement
- 38 Consolidated Statement of changes in Owners' Equity
- 39 Consolidated Statement of Cash Flows
- 40 Notes to the Consolidated Financial Statements

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Ibdar Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of income, changes in owners' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

#### Basis of opinion

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

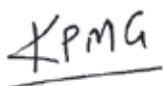
#### Opinion

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

### Report on other regulatory requirements

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Chairman's report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the 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) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.



KPMG Fakhro  
Partner Registration No. 137  
22 February 2018

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2017

US\$ 000's

	Note	31 December 2017	31 December 2016
<b>ASSETS</b>			
Cash and balances with banks		6,163	5,151
Placements with financial institutions		5,031	7,902
Investment in sukuk	5	91,127	70,881
Financing receivables	6	11,970	6,915
Receivable from Ijarah investors	7	5,892	15,185
Investment in equity securities	8	88,987	87,680
Assets acquired for leasing	9	-	68,602
Investment in real estate	10	144,201	107,264
Equity-accounted investees	11	461	4,742
Other assets	12	12,865	13,603
<b>Total assets</b>		<b>366,697</b>	<b>387,925</b>
<b>LIABILITIES</b>			
Placements from financial institutions		2,002	6,503
Financing liabilities	13	102,370	73,273
Liabilities related to assets acquired for leasing	9	-	52,181
Other liabilities	14	17,682	13,963
<b>Total liabilities</b>		<b>122,054</b>	<b>145,920</b>
<b>OWNERS' EQUITY</b>			
Share capital	15	233,000	300,000
Statutory reserve		762	676
Retained earnings / (accumulated losses)		1,138	(66,634)
Property fair value reserve		278	610
General reserve		4,618	4,618
<b>Equity attributable to shareholders of Bank</b>		<b>239,796</b>	<b>239,270</b>
Non-controlling interests		4,847	2,735
<b>Total owners' equity</b>		<b>244,643</b>	<b>242,005</b>
<b>Total liabilities and owner's equity</b>		<b>366,697</b>	<b>387,925</b>

The consolidated financial statements consisting of pages 36 to 69 were approved by the Board of Directors on 22 February 2018 and signed on its behalf by:



Tareq Sadeq  
Chairman



Abdulkarim Bucheery  
Vice chairman



Ayman Sejiny  
Chief Executive Officer

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

**CONSOLIDATED INCOME STATEMENT**

For the year ended 31 December 2017

US\$ 000's

	Note	2017	2016
<b>INCOME</b>			
Income from investment banking services		908	-
Income from sukuk	16	4,650	6,134
Income from investment in equity securities	17	3,407	(293)
Fee income		-	494
Finance income		1,218	1,137
Share of profit of equity-accounted investees	11	139	192
Gain on sale of equity-accounted investees		298	-
Income from investment in real estate	18	2,134	1,005
Other income		1,327	2,218
<b>Total income from continuing operations</b>		<b>14,081</b>	<b>10,887</b>
<i>Discontinued operations:</i>			
Income from discontinued operations, net	9	3,028	8,452
<b>Total income</b>		<b>17,109</b>	<b>19,339</b>
<b>EXPENSES</b>			
Staff cost	19	7,781	6,420
Finance expense		1,194	1,204
Depreciation and amortization		95	150
Other operating expenses	20	5,164	4,677
<b>Total expenses</b>		<b>14,234</b>	<b>12,451</b>
<b>Profit before fair value changes and impairment allowances</b>		<b>2,875</b>	<b>6,888</b>
Net fair value changes on investment securities		397	(2,322)
Impairment allowances	21	(2,267)	(52,297)
<b>PROFIT / (LOSS) FOR THE YEAR</b>		<b>1,005</b>	<b>(47,731)</b>
Attributable to:		858	(49,385)
Shareholders of Bank		147	1,654
Non-controlling interests		<b>1,005</b>	<b>(47,731)</b>

The consolidated financial statements consisting of pages 36 to 69 were approved by the Board of Directors on 22 February 2018 and signed on its behalf by:



Tareq Sadeq  
Chairman



Abdulkarim Bucheery  
Vice chairman



Ayman Sejiny  
Chief Executive Officer

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

**CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY**

For the year ended 31 December 2017

US\$ 000's

2017	Equity attributable to shareholders of Bank						Total	Non-controlling interests	Total owners' equity
	Share capital	Statutory reserve	Retained earnings / (accumulated losses)	Property fair value reserve	General reserve				
Balance at 1 January 2017	300,000	676	(66,634)	610	4,618	239,270	2,735	242,005	
Profit for the year	-	-	858	-	-	858	147	1,005	
Net changes in fair value	-	-	-	(332)	-	(332)	-	(332)	
Statutory reserves	-	86	(86)	-	-	-	-	-	
<b>Total recognised income and expense for the year</b>	<b>-</b>	<b>86</b>	<b>772</b>	<b>(332)</b>	<b>-</b>	<b>526</b>	<b>147</b>	<b>673</b>	
Non-controlling interests relating to subsidiaries	-	-	-	-	-	-	2,036	2,036	
Distribution to non-controlling interests	-	-	-	-	-	-	(71)	(71)	
Adjustment of losses (note 15)	(67,000)	-	67,000	-	-	-	-	-	
<b>Balance at 31 December 2017</b>	<b>233,000</b>	<b>762</b>	<b>1,138</b>	<b>278</b>	<b>4,618</b>	<b>239,796</b>	<b>4,847</b>	<b>244,643</b>	

2016	Equity attributable to shareholders of Bank						Total	Non-controlling interests	Total owners' equity
	Share capital	Statutory reserve	Accumulated losses	Investment fair value reserve	Property fair value reserve	General reserve			
Balance at 1 January 2016	300,000	676	(17,249)	(107)	1,826	4,618	289,764	13,816	303,580
(Loss) / profit for the year	-	-	(49,385)	-	-	-	(49,385)	1,654	(47,731)
Net changes in fair value	-	-	-	107	(1,216)	-	(1,109)	-	(1,109)
Total recognised income and expense for the year	-	-	(49,385)	107	(1,216)	-	(50,494)	1,654	(48,840)
Derecognition on disposal of assets acquired-for- leasing, net	-	-	-	-	-	-	-	(12,735)	(12,735)
Balance at 31 December 2016	300,000	676	(66,634)	-	610	4,618	239,270	2,735	242,005

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2017

US\$ 000's

	2017	2016
<b>OPERATING ACTIVITIES</b>		
Profit / (loss) for the year	1,005	(47,731)
Adjustments for:		
Depreciation and amortization	95	150
Net fair value loss on investment securities	(397)	2,322
Share of profit of equity-accounted investees	(139)	(192)
Gain on sale of equity accounted investee	(298)	-
Gain on sale of investment in sukuk	(1,127)	(1,909)
Gain on sale of investment in real estate	(623)	-
Impairment allowances	2,267	52,297
Other income	(217)	(2,068)
Amortisation of premium / (discount), net	237	99
Operating profit before changes in operating assets and liabilities	<b>803</b>	2,968
<b>Changes in operating assets and liabilities:</b>		
Financing receivables	4,285	541
Placement with financial institutions	(5,031)	-
Other assets	24,563	(5,299)
Other liabilities	3,609	3,444
<b>Net cash generated from operating activities</b>	<b>28,229</b>	1,654
<b>INVESTING ACTIVITIES</b>		
Purchase of investment securities	(200,591)	(138,360)
Proceeds from sale of investment securities	178,012	144,775
Purchase of investment in real estate, net	(44,214)	(77,356)
Proceeds from sale of investment in real estate	9,546	-
Proceeds from equity accounted investees, net	4,689	5,819
Payments for purchase of equipment	(157)	(138)
Assets acquired for leasing, net	(6,929)	12,047
<b>Net cash used in investing activities</b>	<b>(59,644)</b>	(53,213)
<b>FINANCING ACTIVITIES</b>		
Placement from financial institutions, net	(4,501)	2,340
Financing liabilities, net	29,097	47,051
Distribution to non-controlling interests	(71)	-
<b>Net cash generated from financing activities</b>	<b>24,525</b>	49,391
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(6,890)</b>	(2,168)
Cash and cash equivalents at 1 January	13,053	15,221
<b>CASH AND CASH EQUIVALENTS AT 31 December</b>	<b>6,163</b>	13,053
<b>CASH AND CASH EQUIVALENTS comprise:</b>		
Cash and bank balances	6,163	5,151
Placements with financial institutions (with original maturity of 90 days or less)	-	7,902
	<b>6,163</b>	13,053

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2017

US\$ 000's

**1. INCORPORATION AND ACTIVITIES**

Ibdar Bank B.S.C.(c) (the "Bank"), is a closed joint stock company incorporated in the Kingdom of Bahrain on 12 June 2007 under commercial registration (CR) number 65549. The Bank operates as an Islamic Wholesale Investment Bank under a license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is Zamil Tower, 6<sup>th</sup> Floor, Al Khalifa Avenue, Block 305, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board (SSB) whose role is defined in the Bank's Articles of Association.

The principal activities of the Bank include investment advisory services and investment transactions, which comply with Islamic sharia'a rules and principles according to the opinion of the Group's Shari'a Supervisory Board.

**Consolidated financial statements**

The consolidated financial statements comprise the results of the Bank and its subsidiaries (together referred to as "the Group").

The following are the principal subsidiaries of the Bank that are consolidated:

Subsidiary	Beneficial ownership interests		Year of incorporation / acquisition	Country of incorporation	Principal activity
	2017	2016			
Ibdar Corporate Services Limited	100%	100%	2008	British Virgin Island	Manage affiliated companies
Tamkeen Investment Company B.S.C. (c)	100%	100%	2008	Bahrain	Administer Management Incentive Program ("MIP").
Suffun Bahrain W.L.L. **	-	100%	2010	Bahrain	Investment Holding Company
Medical Management Group SPC **	-	100%	2005	Bahrain	SPV to invest in health care
Q400-III Aviation Company Limited *	-	100%	2015	British Virgin Islands	Purchase and lease of aircraft to airline company
Q400-IV Aviation Company Limited *	-	100%			
Q400-V Aviation Company Limited *	-	100%			
PKV Investment Company Limited	90%	90%	2016	Cayman Islands	Investment holding vehicle for property lease
Amazon Robotics	90%	-	2017	Cayman Islands	Investment holding vehicle for property lease

\* Sold during 2017

\*\* Liquidated during 2017

**2. BASIS OF PREPARATION****a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and in conformity with Bahrain Commercial Companies Law. In line with the requirements of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards ('IFRS').

New standards, amendments and interpretations effective from 1 January 2017

No new standards, amendments and interpretations which became effective as of 1 January 2017.

New standards, amendments and interpretations issued but not yet effective

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

US\$ 000's

### 2. BASIS OF PREPARATION (CONTINUED)

#### a) Statement of compliance (continued)

##### FAS 30 - Impairment, credit losses and onerous commitments

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

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

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

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

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

##### Expected credit losses

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

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

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

The Group estimates the FAS 30 transition amount will reduce shareholders' equity by approximately USD 55 thousand as at 1 January 2018. The estimated impact relates primarily to the increase in the allowance for credit losses under the new impairment requirements. The Group continues to revise, refine and validate the impairment models and related process controls which may change the actual impact on adoption.

#### b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for certain investment securities and investment properties that are carried at fair value. The consolidated financial statements are presented in United States Dollars (US\$), being the functional currency of the Group's operations. All financial information presented in US\$ has been rounded to the nearest thousands, except when otherwise indicated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

US\$ 000's

### 2. BASIS OF PREPARATION (CONTINUED)

#### c) Basis of consolidation

##### i) Subsidiaries

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

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and the SPE, the Group performs a reassessment of control over the SPE. The Group in its fiduciary capacity also manages and administers assets held in trust and other investment vehicles on behalf of investors.

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 30.

##### Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

##### Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated statement of financial position as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

##### ii) Investment in associates and joint ventures (Equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Joint venture is an arrangements in which the Group has joint control, whereby the Group has rights to the net assets of the arrangements, rather than rights to its assets and obligations for its liabilities.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 - *Investment in Associates* for venture capital recognised and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer note 3 (b)). Interest in joint ventures are accounted for using the equity method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

US\$ 000's

### 2. BASIS OF PREPARATION (CONTINUED)

#### c) Basis of consolidation (continued)

##### ii) Investment in associates and joint ventures (Equity-accounted investees) (continued)

Associates where the equity accounting method is chosen and joint ventures are initially recognised at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an equity-accounted investee at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment. When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

If the ownership interest in an equity-accounted investee is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in equity is reclassified to the consolidated income statement where appropriate.

##### iii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any recognised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as recognised gains, but only to the extent that there is no evidence of impairment.

The reporting period of the Group's subsidiaries and equity-accounted investees are identical and their accounting policies conform to those used by the Group for similar transactions and events in similar circumstances. The accounting policies of the subsidiaries and equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated income statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated income statement. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements.

#### a) Foreign currency transactions

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US\$, which is the Group's functional and presentation currency.

Foreign currency transactions are translated 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 year-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 equity securities measured at fair value through equity, are included in investments fair value reserve.

#### Other group companies

The other Group companies functional currencies are either denominated in US dollars or currencies which are effectively pegged to the US dollars, and hence, the translation of financial statements of the group companies that have a functional currency different from the presentation currency do not result in exchange differences.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

US\$ 000's

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### b) Investment securities

Investment securities comprise debt and equity instruments, but exclude investment in subsidiaries and equity-accounted investees (refer note 2 (c, i & ii)).

##### (i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

##### Debt-type instruments

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

##### At fair value through income statement (FVTIS)

These investments are either not managed on contractual yield basis or designated on initial recognition at FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognised the gains or losses on them on different bases.

##### At amortised cost

This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis.

##### Equity-type instruments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

##### At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments held-for-trading and those designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in private equity, funds and investment in certain associates (refer note 2 c (ii))

##### At fair value through equity (FVTE)

Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. This category includes investment in unquoted equity securities.

##### (ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

##### (iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For investments carried at FVTIS, transaction costs are expensed in the consolidated income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in owners' equity and presented in a separate fair value reserve within equity.

When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in owners' equity is transferred to the consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

US\$ 000's

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (iii) Measurement (continued)

Investments carried at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or where there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

Subsequent to initial recognition, debt-type investments other than those carried at FVTIS are measured at amortised cost using the effective profit method less any impairment allowances.

#### (iv) Measurement principles

##### Amortised cost measurement

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

##### Fair value measurement

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

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

#### c) Placements with financial institutions

These comprise inter-bank placements made using Shari'a compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

#### d) Financing receivables

Financing receivables comprise Shari'a compliant contracts with fixed or determinable payments and are stated at amortised cost less provision for impairment, if any. Specific provisions are created for impairment where losses are expected to arise on non-performing receivables. The receivables are written off when they are considered to be uncollectible to reduce all impaired financing receivables to their expected recognised values.

#### e) Investment in real estate

Investment in real estate comprise land and building held to earn rental income and/or are expected to benefit from capital appreciation and land held for undetermined future use. Investment in real estate are measured initially at cost, including directly attributable expenditure. Subsequently, investment properties are carried at fair value.

Any recognised gains arising from changes in the fair value of investment in real estate shall be recognised directly in owners' equity under "Property fair value reserve".

Investment in real estate is derecognised when they have been disposed of or when an investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property is recognised in the consolidated income statement in the year of retirement or disposal.

Any losses resulting from re-measurement at fair value of investment in real estate carried at fair value shall be adjusted in owners' equity against the property fair value reserve to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the losses shall be recognised in the consolidated income statement. In case there are recognised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the recognised gains relating to the current financial period shall be recognised to the extent of crediting back such previous losses in the consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

US\$ 000's

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### f) Assets acquired for leasing

Assets acquired for leasing represents aircraft acquired by the Group for lease and stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the estimated useful life of the assets. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset and the estimated recoverable amount. Impairment losses, if any, are recognised in the consolidated income statement.

#### g) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

#### h) Impairment of assets

The Group assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

#### Financial assets carried at amortised cost

For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement.

#### Investments carried at fair value through equity (FVTE)

In the case of equity type instruments carried at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. If any such evidence exists for equity type instruments, the recognised re-measurement loss shall be transferred from equity to the consolidated income statement. Impairment losses recognised in consolidated income statement for an equity investment are reversed directly through equity.

For equity type instruments carried at cost due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the expected recoverable amount is assessed to be below the carrying amount of the investment. All impairment losses are recognised through the consolidated income statement and is not reversed.

#### Other non-financial assets

The carrying amount of the Group's assets or its cash generating unit, other than financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

US\$ 000's

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### i) Financing liabilities

Financing liabilities represents facilities from financial institutions. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing costs, dividends and losses relating to financing liabilities are recognised in the consolidated income statement as finance expense. The Group derecognises a financing liability when its contractual obligations are discharged, cancelled or expire.

#### j) Placements from financial Institutions.

These comprise funds from financial institutions received on Shari'ah compliant contracts. Due to financial institutions are stated at their amortised cost.

#### k) Share capital and reserves

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

#### Statutory reserve

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

#### l) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and placements with financial institutions with original maturities of 90 days or less from the acquisition date that are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

#### m) Revenue recognition

Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue earned by the Group and gain / loss on assets are recognised on the following basis:

**Income from investment banking services** is recognised when the services for the transaction are provided and income is earned. This is usually when the Group has performed all significant acts in relation to the transaction and it is highly probable that the economic benefits from the transaction will flow to the Group.

**Management and other fees** are recognised as income when earned and the related services are performed and there is no uncertainty on its collectability.

**Income from placements financial institutions** are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

**Dividend income** from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities. **Fair value gain / (loss) on investment securities (recognised gain or loss)** is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 2 (f)).

**Gain on sale of investment securities (recognised gain)** is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

**Income from assets acquired for leasing** are recognised proportionately over the lease term.

**Finance income / expenses** are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

#### n) Earnings prohibited by Shari'a

The Group is committed to avoid recognised any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means.

#### o) Zakah

Pursuant to the decision of the shareholders', Zakah is the responsibility of the shareholders. The Group is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on the net asset value. These calculations are approved by the Group's Shari'a Supervisory Board and provided for in the Bank's website.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### p) Employees benefits

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

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

##### (ii) Post employment benefits

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

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

#### q) Dividends and other appropriations

Dividends to shareholders and other appropriations are recognised as liabilities in the period in which they are declared and approved by the shareholders in a general meeting.

#### r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

#### s) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is probable. Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

#### t) Leases

Payments under operating lease are recognised in the consolidated income statement on a straight line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

#### u) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

#### v) Trade date accounting

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

#### w) Offsetting of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets include cash and balances with banks, placements with financial institutions, financing receivables, investment securities and other assets. Financial liabilities include due to financial institutions, due to customers, other liabilities and financial guarantees.

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

x) The Group's operates under one segment "Investment Banking", therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

US\$ 000's

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect 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.

#### Judgement

##### Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. 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 (note 3 (b)).

##### Special Purpose Entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's 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 SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

#### Estimations

##### Fair value of financial instruments

The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial information. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

The Group also has unquoted investments carried at fair value using either net asset value or valuations from independent valuers. Based on the values at 31 December 2017, a change in the valuation of 5% would change the value of these investments by plus or minus US\$ 666 thousand (2016: US\$ 508 thousand) with a corresponding increase or decrease in equity, except in case of further decline on impaired investments which will result in loss being taken to consolidated statement of income.

##### Impairment on investments carried at fair value carried through equity

Equity-type instruments classified as investments at FVTE but carried at cost less impairment due to the absence of reliable measure of fair value are tested for impairment. A significant portion of the Group's equity-type investments comprise investments in private equity and long-term real estate and infrastructure development projects. In making an assessment of impairment, the Group evaluates among other factors, liquidity of the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

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**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)****Estimations** (continued)**Fair value of investment in real estate**

The fair value of investment in real estate is determined by independent real estate valuation experts having recent experience in the locations and segments of the investment in real estate that is being valued. The determination of the fair value of such assets requires the use of judgment based on estimates by independent valuation experts that are based on local market conditions existing at the reporting date. For all investment in real estate, their current use equates to the highest and best use. Buildings were valued based on capitalization of future rental cash flows, estimated vacancy rates and capitalization rates. The fair value of land was determined based on sales comparison approach taking into consideration comparable properties in close proximity. There is no change in the valuation methodology during the year.

**Impairment of receivables**

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated.

**Impairment of non-financial assets**

When there is any indication of impairment, the recoverable amount non-financial assets are measured at higher of fair value less costs to sell or value in use, using valuation techniques such as discounted cash flow valuations and recent transaction prices.

**5. INVESTMENT IN SUKUK**

Debt type:	31 December 2017	31 December 2016
At amortised cost:		
- Quoted sukuk (non-trading)	59,501	47,896
At fair value through income statement		
- Quoted sukuk (held-for-trading)	12,635	11,269
	<b>72,136</b>	59,165
<b>Equity type:</b>		
At fair value through income statement		
- Quoted sukuk (non-trading)	14,123	8,741
- Quoted sukuk (held-for-trading)	4,868	2,975
	<b>18,991</b>	11,716
	<b>91,127</b>	70,881

During the year the Group recognised an impairment allowance on the quoted sukuk of US\$ 500 thousand (31 December 2016: 1,515 thousand). Quoted sukuk (debt type instrument) with a carrying value of US\$ 33,277 thousand (31 December 2016: US\$ 23,262 thousand) are offered as collateral for the financing facilities relating to Group's operations (note 13).

**6. FINANCING RECEIVABLES**

	31 December 2017	31 December 2016
Gross murabaha receivables	12,405	9,381
Less: Deferred profit	(435)	(2,635)
Net murabaha receivables	11,970	6,746
Musharaka financing	-	169
	<b>11,970</b>	6,915

Financing receivable is net of impairment allowance of nil (31 December 2016: US\$ 8,610 thousand). The financing receivables are subject to a profit rate of 2.75% and 14.24% with maturity period 16 months and 4 months respectively.

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**7. RECEIVABLE FROM IJARAH INVESTORS**

Receivable from ijarah investors represent the investors' share of borrowings that was sourced by the Bank (refer note 13) for participation in the Group's real estate ijarah series products which will be settled in accordance with the respective product structures.

In accordance with the initial agreement, the receivables will be settled through the sale of the underlying properties. As at 31 December 2017, the fair value of the properties was US\$ 12.2 million (2016: US\$ 26 million) determined based on valuation by independent valuers and the related borrowings amounted to US\$ 12.8 million (31 December 2016: US\$ 15.6 million) (refer note 13).

**8. INVESTMENT IN EQUITY SECURITIES**

	31 December 2017	31 December 2016
At fair value through income statement		
- Unquoted equity securities	13,329	10,150
- Unquoted fund	10,698	10,091
	<b>24,027</b>	20,241
At fair value through equity		
- Quoted equity securities (at fair value)	5,029	6,597
- Unquoted equity securities (at cost less impairment)	59,931	60,842
	<b>64,960</b>	67,439
	<b>88,987</b>	87,680

Unquoted equity securities of US\$ 59,931 thousand (31 December 2016: US\$ 60,842) thousand are carried at cost less impairment in the absence of reliable measure of fair value. During the year, the Group recognised impairment allowances of US\$ 246 thousand (31 December 2016: US\$ 26,851 thousand) (note 21) on unquoted equity securities carried at cost.

Fair value loss on unquoted equity securities carried at fair value through income statement amounted to nil (31 December 2016: US\$ 2,477 thousand).

**9. ASSETS ACQUIRED FOR LEASING**

	2017	2016
<b>Aircraft:</b>		
Cost		
At 1 January	72,750	192,246
Additions during the year	(485)	-
Disposals	(72,265)	(119,496)
<b>At 31 December</b>	<b>-</b>	72,750
<b>Accumulated depreciation</b>		
At 1 January	4,148	7,215
Charge for year	1,382	5,683
Depreciation on disposal	(5,530)	(8,750)
<b>At 31 December</b>	<b>-</b>	4,148
<b>Net book value at 31 December</b>	<b>-</b>	68,602

Assets acquired for leasing represents 3 Q400 aircraft acquired in 2015. The aircrafts were acquired for leasing through a combination of equity and financing and were leased to an aviation services company for a period of 12 years. These aircrafts were sold during the year.

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**9. ASSETS ACQUIRED FOR LEASING (CONTINUED)***Liabilities related to assets acquired for leasing*

This represents fixed rate notes availed in 2015 for financing the acquisition of each asset acquired for leasing separately. The notes are repayable in quarterly instalments over a period of 12 years with final installment payable in 2021 carrying a profit rate of 4.5% to 4.6%. The fixed rate notes are secured against the assets acquired for leasing and do not have any recourse to the Bank. During the year these liabilities were deconsolidated upon sale of the assets acquired for leasing.

Income from discontinued operation, net

	2017	2016
Lease rental income	4,020	18,095
Less:		
Finance cost	(748)	(4,537)
Depreciation	(1,382)	(5,685)
Other operating expenses	(1,114)	(695)
Income of assets acquired for leasing, net	776	7,178
Gain on sale of assets acquired for leasing	2,252	1,274
Income from discontinued operation, net	3,028	8,452

**10. INVESTMENT IN REAL ESTATE**

	31 December 2017	31 December 2016
Land	25,580	30,649
Buildings	118,621	76,615
	<b>144,201</b>	107,264
	<b>2017</b>	2016
At 1 January	107,264	30,034
Additions	46,250	81,073
Fair value changes	(332)	(1,216)
Impairment	-	(2,627)
Disposals / transfers	(8,981)	-
<b>At 31 December</b>	<b>144,201</b>	107,264

**11. EQUITY-ACCOUNTED INVESTEEES**

Investment in associates and joint ventures comprise:

	Country of incorporation	% holding	Nature of activities
Ali Iskandar Al Ansari and Partners W.L.L.(i)*	Qatar	35%	A company operating in earth moving activities
Alpha Lease and Finance Holding Company BSC (c) (i)*	Bahrain	30%	Leasing of equipment
Apex Properties Company B.S.C. (Closed) (i)*	Bahrain	30%	Property management company
Palma Ibdar Air Lease B.S.C (c)	Bahrain	50%	Managing aircrafts leasing to airline companies.

\* These associates are fully provided for and the financial information below does not include their financial results.

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**11. EQUITY-ACCOUNTED INVESTEEES (CONTINUED)**

	2017	2016
At 1 January	4,742	12,500
Additions	-	337
Disposal	(4,387)	(5,820)
Share of profit of equity-accounted investees	139	192
Dividends	(33)	-
Impairment allowance (note 21)	-	(2,467)
At 31 December	<b>461</b>	4,742

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

	2017	2016
Assets	933	9,595
Liabilities	22	6,778
Revenue	403	277
Profit / (loss) for the year	218	47

**12. OTHER ASSETS**

	31 December 2017	31 December 2016
Receivables related to real estate projects	7,296	4,706
Project related advances	358	2,712
Dividends receivables *	2,713	-
Accrued profit on sukuk	973	671
Receivables related to assets acquired for leasing	-	3,689
Staff receivable	548	632
Prepaid expenses	294	624
Equipment	412	349
Others	271	220
	<b>12,865</b>	13,603

\* The amounts have been received subsequent to the year end

**13. FINANCING LIABILITIES**

	31 December 2017	31 December 2016
<b>Murabaha financing:</b>		
- Related to Ijarah investors	6,041	15,692
- Related to Group's operations	20,049	8,301
<b>Other financing</b>	<b>76,280</b>	<b>49,280</b>
	<b>102,370</b>	<b>73,273</b>

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**13. FINANCING LIABILITIES (CONTINUED)**

Murabaha financing of US\$ 6 million (31 December 2016: US\$ 15.7million) relating to Ijarah investors carries profit rate of 5.75% and is repayable on quarterly installments with final installment due in April 2019 and secured against investment properties of Ijarah investors of carrying value US\$ 12.2 million (title held by the Bank on behalf of project investors). All costs of the facilities are borne by the Ijarah investors (using cash flows from income generated from the underlying properties).

The remaining murabaha financing related to the Group's operations comprise one short term facility from financial institution for a period of up to 3 months at variable rate of 2.3% - 2.55%. The financing is secured against quoted sukuk of carrying amount US\$ 33,277 thousand as at 31 December 2017 (31 December 2016: US\$ 23,262 thousand) (note 5).

Other financing represents long term funding at variable rate of 2.19% plus 1 Month LIBOR and a fixed rate of 4% for the purchase of investments in real estate having a tenor of 10 years and 30 years respectively. The financing is secured against the investment in real estate and are held through special purpose vehicle that do not have any recourse to the Bank. The bank is not a party to these financing contracts and has not guaranteed repayment in any form. These balances are reported in the financial statements as a result of consolidation of the assets related to such financing.

**14. OTHER LIABILITIES**

	<b>31 December 2017</b>	31 December 2016
Accounts payables and accruals	1,776	1,523
Due to Ijara investors	884	341
Due to other investors	310	7,651
Advance received for sale of subsidiaries	10,900	-
Provision for employee benefits	2,095	2,092
Others	1,717	2,356
	<b>17,682</b>	13,963

**15. SHARE CAPITAL**

	<b>31 December 2017</b>	31 December 2016
<b>Authorized:</b>		
500,000,000 (2016: 500,000,000) ordinary shares at US\$ 1 per share	<b>500,000</b>	500,000
<b>Issued, subscribed and paid-up capital</b>		
233,000,000 (2016: 300,000,000) ordinary shares at US\$ 1 per share	<b>233,000</b>	300,000

In the Extraordinary Annual General Meeting held on 11 May 2017, the shareholders approved capital reduction by adjustment of accumulated losses of US\$ 67 million against the Bank's paid-up share capital which has been reflected in the consolidated financial statement after obtaining necessary regulatory approvals. The Bank is in the process of amending the memorandum and articles of association to reflect the above changes.

The Board of Directors proposes dividend of US\$ 750 thousand representing 0.3% of the paid up share capital subject to regulatory approval and shareholders' approval in annual general meeting.

**16. INCOME FROM SUKUK**

	<b>2017</b>	2016
Sukuk profit	3,523	3,781
Gain on sale of sukuk	1,127	2,353
	<b>4,650</b>	6,134

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**17. INCOME FROM INVESTMENT IN EQUITY SECURITIES**

	2017	2016
Gain / (loss) on sale of investment securities	399	(315)
Dividend income	3,008	22
	<b>3,407</b>	<b>(293)</b>

**18. INCOME FROM INVESTMENT IN REAL ESTATE**

	2017	2016
Rental income from properties, net	1,511	1,005
Gain on sale of investment in real estate	623	-
	<b>2,134</b>	<b>1,005</b>

**19. STAFF COST**

	2017	2016
Salaries and benefits	6,009	5,527
Social insurance expenses	436	370
Other staff expenses	1,336	523
	<b>7,781</b>	<b>6,420</b>

**20. OTHER OPERATING EXPENSES**

	2017	2016
Professional expenses	2,076	1,654
Board of directors fees and related expenses	976	1,031
Travel and accommodation	386	449
Other expenses	1,726	1,543
	<b>5,164</b>	<b>4,677</b>

**21. IMPAIRMENT ALLOWANCES**

	Note	2017	2016
Investment in Sukuk	5	500	1,515
Financing receivables	6	(46)	8,874
Investment in equity securities:			
i. Unquoted	8	246	26,851
ii. Quoted	8	1,567	9,919
Investment in real estate	10	-	2,671
Equity-accounted investees	11	-	2,467
		<b>2,267</b>	<b>52,297</b>

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**22. CONCENTRATION OF ASSETS AND LIABILITIES****a) Geographic region**

The geographical distribution of the Group's assets and liabilities as of 31 December 2017 is as follows:

31 December 2017	Middle East	Europe	Africa	North America	Others	Total
<b>Assets</b>						
Cash and balances with banks	3,405	2,758	-	-	-	6,163
Placements with financial institutions	5,031	-	-	-	-	5,031
Investment in sukuk	82,808	-	-	-	8,319	91,127
Financing receivables	11,970	-	-	-	-	11,970
Receivable from Ijarah investors	5,892	-	-	-	-	5,892
Investment in equity securities	58,653	19,342	10,992	-	-	88,987
Investment in real estate	25,580	-	-	118,621	-	144,201
Equity-accounted investees	461	-	-	-	-	461
Other assets	4,965	310	160	7,411	19	12,865
<b>Total assets</b>	<b>198,765</b>	<b>22,410</b>	<b>11,152</b>	<b>126,032</b>	<b>8,338</b>	<b>366,697</b>
<b>Liabilities</b>						
Placements from financial institutions	2,002	-	-	-	-	2,002
Financing liabilities	26,090	-	-	76,280	-	102,370
Other liabilities	16,879	-	35	752	16	17,682
<b>Total liabilities</b>	<b>44,971</b>	<b>-</b>	<b>35</b>	<b>77,032</b>	<b>16</b>	<b>122,054</b>

31 December 2016	Middle East	Europe	Africa	North America	Others	Total
<b>Assets</b>						
Cash and balances with banks	4,029	1,122	-	-	-	5,151
Placements with financial institutions	7,902	-	-	-	-	7,902
Investment in sukuk	62,126	-	485	-	8,270	70,881
Financing receivables	6,746	-	-	-	169	6,915
Receivable from Ijarah investors	15,185	-	-	-	-	15,185
Investment in equity securities	61,537	15,611	10,532	-	-	87,680
Assets acquired for leasing	68,602	-	-	-	-	68,602
Investment in real estate	30,205	4,688	-	72,371	-	107,264
Equity-accounted investees	4,742	-	-	-	-	4,742
Other assets	5,889	2,726	129	4,707	152	13,603
<b>Total assets</b>	<b>266,963</b>	<b>24,147</b>	<b>11,146</b>	<b>77,078</b>	<b>8,591</b>	<b>387,925</b>
<b>Liabilities</b>						
Placements from financial institutions	5,002	-	-	-	1,501	6,503
Financing liabilities	23,993	-	-	49,280	-	73,273
Liabilities related to assets acquired for leasing	-	-	-	52,181	-	52,181
Other liabilities	13,570	-	4	386	3	13,963
<b>Total liabilities</b>	<b>42,565</b>	<b>-</b>	<b>4</b>	<b>101,847</b>	<b>1,504</b>	<b>145,920</b>

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**22. CONCENTRATION OF ASSETS AND LIABILITIES (CONTINUED)****b) Industry sector**

The industrial distribution of the Group's assets and liabilities as of 31 December 2017 is as follows:

31 December 2017	Banks and financial institutions	Real estate	Aviation	Sovereign	Others	Total
<b>Assets</b>						
Cash and balances with banks	6,163	-	-	-	-	6,163
Placements with financial institutions	5,031	-	-	-	-	5,031
Investment in sukuk	28,916	5,832	-	33,820	22,559	91,127
Financing receivables	-	6,793	-	-	5,177	11,970
Receivable from Ijarah investors	-	-	-	-	5,892	5,892
Investment in equity securities	29,875	42,446	-	-	16,666	88,987
Investment in real estate	-	144,201	-	-	-	144,201
Equity-accounted investees	-	-	461	-	-	461
Other assets	302	7,717	-	408	4,438	12,865
<b>Total assets</b>	<b>70,287</b>	<b>206,989</b>	<b>461</b>	<b>34,228</b>	<b>54,732</b>	<b>366,697</b>
<b>Liabilities</b>						
Placements from financial institutions	2,002	-	-	-	-	2,002
Financing liabilities	26,090	76,280	-	-	-	102,370
Other liabilities	-	2,842	73	-	14,767	17,682
<b>Total liabilities</b>	<b>28,092</b>	<b>79,122</b>	<b>73</b>	<b>-</b>	<b>14,767</b>	<b>122,054</b>

31 December 2016	Banks and financial institutions	Real estate	Aviation	Sovereign	Others	Total
<b>Assets</b>						
Cash and balances with banks	5,151	-	-	-	-	5,151
Placements with financial institutions	7,902	-	-	-	-	7,902
Investment in sukuk	24,522	3,079	3,497	16,951	22,832	70,881
Financing receivables	-	6,746	-	-	169	6,915
Receivable from Ijarah investors	-	-	-	-	15,185	15,185
Investment in equity securities	33,491	37,295	-	-	16,894	87,680
Assets acquired for leasing	-	-	68,602	-	-	68,602
Investment in real estate	-	107,264	-	-	-	107,264
Equity-accounted investees	-	688	4,054	-	-	4,742
Other assets	422	7,614	3,709	125	1,733	13,603
<b>Total assets</b>	<b>71,488</b>	<b>162,686</b>	<b>79,862</b>	<b>17,076</b>	<b>56,813</b>	<b>387,925</b>
<b>Liabilities</b>						
Placements from financial institutions	6,503	-	-	-	-	6,503
Financing liabilities	23,993	49,280	-	-	-	73,273
Liabilities related to assets acquired for leasing	-	-	52,181	-	-	52,181
Other liabilities	-	2,593	584	-	10,786	13,963
<b>Total liabilities</b>	<b>30,496</b>	<b>51,873</b>	<b>52,765</b>	<b>-</b>	<b>10,786</b>	<b>145,920</b>

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**23. MATURITY PROFILE OF ASSETS AND LIABILITIES**

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2017	Up to 3 months	3 months to 1 year	Total up to 1 year	1 to 5 years	5 to 10 years	No fixed maturity	Total
<b>Assets</b>							
Cash and balances with banks	6,163	-	6,163	-	-	-	6,163
Placements with financial institutions	-	5,031	5,031	-	-	-	5,031
Investment in sukuk	-	-	-	22,745	54,259	14,123	91,127
Financing receivables	-	5,177	5,177	6,793	-	-	11,970
Receivable from Ijarah investors	-	-	-	5,892	-	-	5,892
Investment in equity securities	-	-	-	-	-	88,987	88,987
Investment in real estate	-	-	-	-	-	144,201	144,201
Equity-accounted investees	-	-	-	-	-	461	461
Other assets	11,086	805	11,891	548	-	426	12,865
<b>Total assets (a)</b>	<b>17,249</b>	<b>11,013</b>	<b>28,262</b>	<b>35,978</b>	<b>54,259</b>	<b>248,198</b>	<b>366,697</b>
<b>Liabilities</b>							
Placements from financial institutions	2,002	-	2,002	-	-	-	2,002
Financing liabilities	20,049	-	20,049	6,041	76,280	-	102,370
Other liabilities	822	4,820	5,642	196	-	11,844	17,682
<b>Total liabilities (b)</b>	<b>22,873</b>	<b>4,820</b>	<b>27,693</b>	<b>6,237</b>	<b>76,280</b>	<b>11,844</b>	<b>122,054</b>
<b>Commitments (c)</b>	-	4,485	4,485	-	-	-	4,485
<b>Net liquidity gap (a-b-c)</b>	<b>(5,624)</b>	<b>1,708</b>	<b>(3,916)</b>	<b>29,741</b>	<b>(22,021)</b>	<b>236,354</b>	<b>240,158</b>
<b>Cumulative net liquidity gap</b>	<b>(5,624)</b>	<b>(3,916)</b>	-	<b>25,825</b>	<b>3,804</b>	<b>240,158</b>	-

31 December 2016	Up to 3 months	3 months to 1 year	Total up to 1 year	1 to 5 years	5 to 10 years	No fixed maturity	Total
<b>Assets</b>							
Cash and balances with banks	5,151	-	5,151	-	-	-	5,151
Placements with financial institutions	7,902	-	7,902	-	-	-	7,902
Investment in sukuk	14,244	4,897	19,141	12,057	30,458	9,225	70,881
Financing receivables	-	-	-	6,915	-	-	6,915
Receivable from Ijarah investors	-	-	-	15,185	-	-	15,185
Investment in equity securities	-	-	-	-	-	87,680	87,680
Assets acquired for leasing	-	68,602	68,602	-	-	-	68,602
Investment in real estate	-	-	-	-	-	107,264	107,264
Equity-accounted investees	-	-	-	-	-	4,742	4,742
Other assets	7,927	4,523	12,450	803	-	350	13,603
<b>Total assets (a)</b>	<b>35,224</b>	<b>78,022</b>	<b>113,246</b>	<b>34,960</b>	<b>30,458</b>	<b>209,261</b>	<b>387,925</b>
<b>Liabilities</b>							
Placements from financial institutions	6,503	-	6,503	-	-	-	6,503
Financing liabilities	8,301	-	8,301	15,692	49,280	-	73,273
Liabilities related to assets acquired for leasing	1,272	3,816	5,088	20,353	26,740	-	52,181
Other liabilities	6,907	6,225	13,132	196	-	635	13,963
<b>Total liabilities (b)</b>	<b>22,983</b>	<b>10,041</b>	<b>33,024</b>	<b>36,241</b>	<b>76,020</b>	<b>635</b>	<b>145,920</b>
<b>Commitments (c)</b>	-	16,195	16,195	242	-	-	16,437
<b>Net liquidity gap (a-b-c)</b>	<b>12,241</b>	<b>51,786</b>	<b>64,027</b>	<b>(1,523)</b>	<b>(45,562)</b>	<b>208,626</b>	<b>225,568</b>
<b>Cumulative net liquidity gap</b>	<b>12,241</b>	<b>64,027</b>	-	<b>62,504</b>	<b>16,942</b>	<b>225,568</b>	-

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**24. RELATED PARTY BALANCES AND TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties comprise major shareholders, directors, shari'a supervisory board, external auditors and executive management of the Group and/or entities over which they exercise control and/or significant influence.

The related party balances included in these consolidated financial statements are as follows:

	31 December 2017				
	Associates	Directors/ key Management personnel Shari'a board members	Major shareholders / entities in which directors are interested	Assets under management	Total
<b>Assets</b>					
Cash and balances with banks	-	-	150	-	150
Financing receivables	-	-	-	6,793	6,793
Receivable from Ijarah investors	-	-	-	5,892	5,892
Investment in equity securities	24,027	-	-	-	24,027
Equity-accounted investees	461	-	-	-	461
Other assets	227	119	-	-	346
<b>Liabilities</b>					
Due to investors	-	-	-	536	536
Other liabilities	81	1,589	-	39	1,709
<b>Off-balance sheet</b>					
Commitments	-	-	-	2,160	2,160

	31 December 2016				
	Associates	Directors/ key Management personnel Shari'a board members	Major shareholders / entities in which directors are interested	Assets under management	Total
<b>Assets</b>					
Cash and balances with banks	-	-	15	-	15
Financing receivables	-	-	-	6,746	6,746
Receivable from Ijarah investors	-	-	-	15,185	15,185
Investment in equity securities	10,150	-	-	-	10,150
Equity-accounted investees	4,742	-	-	-	4,742
Other assets	5	167	-	-	172
<b>Liabilities</b>					
Due to investors	-	-	-	-	-
Other liabilities	83	1,209	-	545	1,837
<b>Off-balance sheet</b>					
Commitments	-	-	-	7,069	7,069

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**24. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)**

The related party transactions included in these consolidated financial statements are as follows:

	2017				Total
	Associates	Directors / key management personnel Shari'a board members	Major shareholders/entities in which directors are interested	Assets under management	
<b>Income</b>					
Income from investment in equity securities	561	-	-	-	561
Finance income	-	-	-	906	906
Share of profit / (loss) of equity-accounted investees	139	-	-	-	139
Fair value loss					
Income from investment banking services	858	-	-	-	858
Other income	-	200	-	-	200
<b>Expenses</b>					
Staff cost	-	2,304	-	-	2,304
Other expenses	-	976	-	-	976
Finance expense	-	-	-	719	719
Fair value changes on investment securities	(607)	-	-	-	(607)
Impairment allowances	-	-	-	-	-

	2016				Total
	Associates	Directors / key management personnel Shari'a board members	Major shareholders/entities in which directors are interested	Assets under management	
<b>Income</b>					
Income from investment in equity securities	-	-	-	-	-
Finance income	-	-	-	920	920
Share of profit / (loss) of equity-accounted investees	192	-	-	-	192
Fair value loss	(1,500)	-	-	(977)	(2,477)
Income from investment banking services	-	-	-	-	-
Other income	-	400	-	-	400
<b>Expenses</b>					
Staff cost	-	1,525	-	-	1,525
Other expenses	-	1,031	-	-	1,031
Finance expense	-	-	-	920	920
Fair value changes on investment securities	-	-	-	-	-
Impairment allowances	2,467	-	-	8,000	10,467

Remuneration to key management personnel is as follow:

	31 December 2017	31 December 2016
Short term employment benefits	2,244	1,467
Long term/ termination benefits	60	58
	<b>2,304</b>	<b>1,525</b>

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**25. COMMITMENTS**

	<b>31 December 2017</b>	31 December 2016
Uncalled capital commitments in respect of investment	4,243	15,953
Operating lease commitments:		
- Within one year	242	242
- One to three years	-	242
	<b>4,485</b>	<b>16,437</b>

**26. FINANCIAL RISK MANAGEMENT**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risk

The Group has a risk management and governance framework which is intended to integrate risk management in its strategic thinking and business practices.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk.

**Risk Management and Governance Structure****Board of Directors**

The Board of Directors of the Group has overall responsibility for establishing the Group's approach to risk and ensuring that an effective risk management framework is in place. The Board approves and periodically reviews the risk management policies and strategies of the Group.

**Audit, Risk & Compliance Committee**

The mandate of the Audit, Risk and Compliance Committee ("ARCC") requires it to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices and its oversight responsibilities with regards to development of risk management framework across all spectrums of business and operational activities conducted by the Group. The committee is responsible to assist the Board in its oversight of (i) the integrity and reporting of the Group's quarterly and annual consolidated financial statements, (ii) compliance with legal and regulatory requirements; and (iii) the independence and performance of the Group's internal and external auditors. The Committee also reviews the activities and performance of the internal audit function. The committee is also responsible for assessment of the efficiency of overall risk management function of the Group and compliance with regulatory requirements relating to risk management. The committee also ensures transparency and timeliness of internal and external disclosures on risk matters.

**Shari'a Supervisory Board**

The Group's compliance with Shari'a principles is overseen by an external and independent Shari'a Supervisory Board (SSB), fully supported by the Group's other departments. The SSB is responsible for ensuring that there is an ongoing process of reviewing and auditing for Shari'a compliance in accordance with AAOFI standards for existing and new investments. The SSB ensures that all investments undertaken by the lines of business are structured in such a manner that investments comply strictly with Shari'a principles.

**Asset and Liability Committee**

The Asset and Liability Committee ("ALCO") establishes policy and objectives for management of the Group's assets and liabilities in terms of structure, distribution, risk and return and its impact on profitability. It also monitors cash flows, tenor and cost/yield profiles of assets and liabilities and evaluates the Group's consolidated statement of financial position both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions, monitors liquidity and foreign exchange exposures and positions.

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### 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Investment, Credit & Risk Committee

The Investment Credit & Risk Committee ("ICRC") comprises of the Chief Executive Officer, Chief Financial Officer and Head of Investor relations as voting members, in addition to the Heads of Risk Management, Head of Capital Market & Treasury and Head of legal as non-voting members. In addition to facilitating the credit and investment decisions, the ICRC's mission is to establish and maintain a risk management framework throughout the Group to best manage Bank's shareholders and client interests. Its mandate is to identify, assess and measure risks arising from the Group's activities, and to define the appropriate course of action to mitigate or manage them.

#### Risk Management Department

The Risk Management Department ("RMD") is responsible for implementing and maintaining risk related policies & procedures to ensure an independent control process. It provides oversight compliance with risk principles, policies and limits across the Group. The department is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This department also ensures complete capture of the risks in risk measurement and reporting.

#### Internal Audit

Internal Audit is responsible for carrying out a risk-based program designed to provide assurance that assets are being safeguarded. This involves ensuring that controls are in place and working effectively in accordance with Group policies and procedures as well as with laws and regulations. The work carried out by Internal Audit includes providing assurance on the effectiveness of the risk management functions as well as that of controls operated by the business units. The ARCC approves the annual audit plan and also receives regular reports of the results of audit work.

#### Risk Management and Reporting Structure

The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Group has established relevant risk limit structures to quantify its risk appetite. ARCC reviews and recommends the limits, suggested by the ICRC to the Board which is ultimately responsible for the final approval of the limit. The monitoring and controlling of risks is managed through limits set by the ICRC. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

The RMD presents reports to the Board of Directors through ICRC and ARCC. These reports include risk and investment review of Group's portfolio and its impact on Group's capital adequacy, liquidity and profitability.

As part of the Risk Management's reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A periodic briefing is given to the Executive Management and all other relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

#### a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Being a wholesale investment bank, the Group is involved in investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Shari'a Board. Credit risk arises largely through balance with banks, short-term placements with financial institutions, financing receivables, musharaka financing, receivable from ijarah investors, investment in securities and other assets.

The Group manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. Counterparty limits are established with the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to revision at the time of renewal of the facility.

The Board has delegated responsibility for the management of credit risk to its ICRC. ICRC is the highest management-level authority on all credit exposures. The overall role of ICRC is to facilitate the business of the Group in the most effective and efficient manner within the risk guidelines specified by the Board or its designated RC. Prior to funding a facility, and regardless of its size, the ICRC provides an independent assessment of the opportunity, highlighting key risks prior to commitment.

The RMD regularly monitors the level of risk within the Group's portfolio to ensure that appropriate level of economic capital is maintained. This process ensures that the required risk capital is below the available equity, which results in a positive equity cushion. The RMD ensures that Ibdar maintains appropriate asset diversification by geography, industry and investment type.

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**26. FINANCIAL RISK MANAGEMENT (CONTINUED)****Maximum exposure to credit risk**

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position. The figures represent gross exposure, without taking into account any collateral held and other credit mitigants.

	Maximum exposure	
	31 December 2017	31 December 2016
Balances with banks	6,163	5,151
Placements with financial institutions	5,031	7,902
Investment in sukuk	91,127	70,881
Financing receivables	11,970	6,915
Receivable from ijarah investors	5,892	15,185
Other financial assets	11,611	12,347
<b>Total</b>	<b>131,794</b>	<b>118,381</b>

**Credit quality per class of financial assets**

The table below analyses the Group's maximum credit exposure where the credit quality is reflected by external credit ratings of the asset, and in its absence, the counterparties where relevant:

31 December 2017	Placements with						Total
	Balances with banks	financial institutions	Investment in sukuk	Financing receivables	Receivable from ijarah investors	Other financial assets	
Prime to High grade: AAA - AA-	2,648	-	-	-	-	-	2,648
Medium grade: A+ - BBB-	164	-	55,303	-	-	320	55,787
Non-investment / speculative: BB+ - C	3	-	30,715	-	-	449	31,167
Unrated	3,348	5,031	5,109	11,970	5,892	10,842	42,192
<b>Total</b>	<b>6,163</b>	<b>5,031</b>	<b>91,127</b>	<b>11,970</b>	<b>5,892</b>	<b>11,611</b>	<b>131,794</b>

31 December 2016	Placements with						Total
	Balances with banks	financial institutions	Investment in sukuk	Financing receivables	Receivable from ijarah investors	Other financial assets	
Prime to High grade: AAA - AA-	1,122	-	-	-	-	-	1,122
Medium grade: A+ - BBB-	2,200	3,002	44,720	-	-	261	50,183
Non-investment / speculative: BB+ - C	60	2,900	7,679	-	-	4	10,643
Unrated	1,769	2,000	18,482	6,915	15,185	12,082	56,433
<b>Total</b>	<b>5,151</b>	<b>7,902</b>	<b>70,881</b>	<b>6,915</b>	<b>15,185</b>	<b>12,347</b>	<b>118,381</b>

**Concentration risk**

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage the concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

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**26. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The geographical and industry wise distribution of assets and liabilities are set out in note 22.

	Neither past due not impaired	Past due but not impaired	Individually impaired	Impairment / provisions	Total
<b>31 December 2017</b>					
Balances with banks	6,163	-	-	-	6,163
Placements with financial institutions	5,031	-	-	-	5,031
Investment in Sukuk (debt type) (non-trading)	59,501	-	500	(500)	59,501
Financing receivables	11,970	-	-	-	11,970
Receivable from Ijarah investors	5,892	-	-	-	5,892
Other financial assets	11,611	-	-	-	11,611
	<b>100,168</b>	<b>-</b>	<b>500</b>	<b>(500)</b>	<b>100,168</b>

	Neither past due not impaired	Past due but not impaired	Individually impaired	Impairment / provisions	Total
<b>31 December 2016</b>					
Balances with banks	5,151	-	-	-	5,151
Placements with financial institutions	7,902	-	-	-	7,902
Investment in sukuk (debt type) (non-trading)	47,896	-	1,915	(1,915)	47,896
Financing receivables	6,746	-	8,779	(8,610)	6,915
Receivable from Ijarah investors	15,185	-	-	-	15,185
Other financial assets	12,347	-	-	-	12,347
	<b>95,227</b>	<b>-</b>	<b>10,694</b>	<b>(10,525)</b>	<b>95,396</b>

**b) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Asset and Liability Committee (ALCO) evaluates the liquidity position of the bank and balance sheet structural positions. The Committee ensures that the sufficient liquidity is available to fund bank's ongoing business activities, maturity mismatches are managed and internal liquidity limits and ratios are complied.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	Gross undiscounted cash flows				Carrying value
	Less than 3 months	3 to 12 months	Over 1 year	Total	
<b>At 31 December 2017</b>					
Placements from financial institutions	2,004	-	-	2,004	2,002
Financing liabilities	21,025	2,786	92,182	115,993	102,370
Other financial liabilities	822	4,822	12,040	17,684	17,682
<b>Total financial liabilities</b>	<b>23,851</b>	<b>7,608</b>	<b>104,222</b>	<b>135,681</b>	<b>122,054</b>
Commitments	-	4,485	-	4,485	4,485

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**26. FINANCIAL RISK MANAGEMENT (CONTINUED)**

	Gross undiscounted cash flows			Total	Carrying value
	Less than 3 months	3 to 12 months	Over 1 year		
At 31 December 2016					
Placements from financial institutions	6,509	-	-	6,509	6,503
Financing liabilities	8,671	1,057	65,611	75,339	73,273
Liabilities related to assets acquired for leasing	1,272	3,816	48,338	53,426	52,181
Other financial liabilities	6,907	6,225	831	13,963	13,963
Total financial liabilities	23,359	11,098	114,780	149,237	145,920
Commitments	-	16,195	242	16,437	16,437

**c) Market risks**

Market risk is the risk that changes in market prices, such as profit rates, equity prices, foreign exchange rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises equity position risk, profit rate risk, commodities risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group is not exposed to commodities or price risk as there is no commodity holding either in the banking or trading book. Market risk for the Group arises only on account of its foreign exchange exposure and listed Sukuk in the trading book.

The group seeks to manage the market risk through limit structures related to positions, maturities and stop loss.

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Most of the transactions completed by the Group are in US Dollar. However, in the normal course of business certain non-trading monetary assets and liabilities are in other currencies and give rise to currency risk.

Positions are monitored regularly and the Group is not exposed to any significant currency risk.

**Equity price risk**

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through income statement and fair value through equity quoted on stock exchanges. Based on the values at 31 December 2017, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus US\$ 1,201 thousand (2016: US\$ 916 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

**Prepayment risk**

Prepayment risk is the risk that the Group will incur a financial loss because its counterparties repay or request repayment earlier or later than expected. The Group is not exposed to any significant prepayment risk.

**Profit rate risk in banking book**

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised based on contractual repayment arrangements:

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**26. FINANCIAL RISK MANAGEMENT (CONTINUED)**

31 December 2017	Up to 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Total
<b>Assets</b>					
Placements with financial institutions	-	5,031	-	-	5,031
Investment in sukuk	-	-	22,745	68,382	91,127
Financing receivables	-	5,177	6,793	-	11,970
<b>Total profit rate sensitive assets</b>	<b>-</b>	<b>10,208</b>	<b>29,538</b>	<b>68,382</b>	<b>108,128</b>
<b>Liability</b>					
Placements from financial institutions	2,002	-	-	-	2,002
Financing liabilities	20,049	-	6,041	76,280	102,370
<b>Total profit rate sensitive liabilities</b>	<b>22,051</b>	<b>-</b>	<b>6,041</b>	<b>76,280</b>	<b>104,372</b>
<b>Profit rate sensitivity gap</b>	<b>(22,051)</b>	<b>10,208</b>	<b>23,497</b>	<b>(7,898)</b>	<b>3,756</b>
31 December 2016	Up to 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Total
<b>Assets</b>					
Placements with financial institutions	7,902	-	-	-	7,902
Investment in sukuk	-	19,142	12,057	39,682	70,881
Financing receivables	-	-	6,915	-	6,915
<b>Total profit rate sensitive assets</b>	<b>7,902</b>	<b>19,142</b>	<b>18,972</b>	<b>39,682</b>	<b>85,698</b>
<b>Liability</b>					
Placements from financial institutions	6,503	-	-	-	6,503
Financing liabilities	8,301	-	15,692	49,280	73,273
Liabilities related to assets acquired for leasing	1,272	3,816	20,353	26,740	52,181
<b>Total profit rate sensitive liabilities</b>	<b>16,076</b>	<b>3,816</b>	<b>36,045</b>	<b>76,020</b>	<b>131,957</b>
<b>Profit rate sensitivity gap</b>	<b>(8,174)</b>	<b>15,326</b>	<b>(17,073)</b>	<b>(36,338)</b>	<b>(46,259)</b>

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) on floating rate financial assets and liabilities, would be an increase (decrease) of profit by US\$ 75 thousand (2016:US\$ (925) thousand).

**d) Operational Risk**

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank applies the Basic Indicator Approach ('BIA') to measure operational risk and has implemented operational risk management framework. The operational risk management framework consists of the following: i) 'Risk Control and Self-Assessment': operational risks by going through key business processes end-to-end; ii) Evaluate the adequacy of existing process controls; iii) Implement control modifications to reduce operational risks and determine residual risks; and iv) Monitor and report operational risk events to senior management and the Board.

The Group has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") to enable the Group to survive a disaster and to reestablish normal business operations. The DR&BCP will enable the Group to minimize interruptions to business service operations, resume critical operations within a specified time after a disaster, minimize financial loss due to disruptions, limit the severity of the disruption, expedite the restoration of services and maintain a positive public image of the Bank.

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**27. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed, willing parties (seller and buyer) in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

**Valuation techniques**

Fair value of quoted securities are derived from quoted market prices in active markets. In case of unquoted securities, the fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The fair value of unquoted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor, the market value of a comparable company or other proprietary valuation models.

The fair value of other financial instruments on the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements.

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

- Level 1 quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3 Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

<b>31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments carried at				
i. fair value through income statement	17,503	10,698	13,329	41,530
ii. fair value through equity	5,029	-	-	5,029
	<b>22,532</b>	<b>10,698</b>	<b>13,329</b>	<b>46,559</b>
<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments carried at				
i. fair value through income statement	24,336	-	10,150	34,486
ii. fair value through equity	6,596	-	-	6,596
	30,932	-	10,150	41,082

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**27. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)****Movements in level 3 financial instruments**

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	At 1 January 2017	Total losses recorded in consolidated income statement	Total gains recorded in equity	Purchases	Sales/ transfers	At 31 December 2017
<b>Investments carried at fair value through:</b>						
- income statement	10,150	-	-	3,179	-	13,329
- equity	-	-	-	-	-	-
	<b>10,150</b>	<b>-</b>	<b>-</b>	<b>3,179</b>	<b>-</b>	<b>13,329</b>

	At 1 January 2016	Total losses recorded in consolidated income statement	Total gains recorded in equity	Purchases	Sales/ transfers	At 31 December 2016
<b>Investments carried at fair value through:</b>						
- income statement	12,627	(2,477)	-	-	-	10,150
- equity	15,038	-	-	-	(15,038)	-
	<b>27,665</b>	<b>(2,477)</b>	<b>-</b>	<b>-</b>	<b>(15,038)</b>	<b>10,150</b>

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2017.

**28. SHARI'A SUPERVISORY BOARD**

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

**29. EARNINGS PROHIBITED BY SHARI'A**

Earnings prohibited by Shari'a, if earned are set aside for charitable purposes or otherwise dealt with in accordance with directions of the Shari'a Supervisory Board.

**30. ASSETS UNDER MANAGEMENT**

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position. In 2017 total assets under management amounted to US\$ 83 million (31 December 2016 US\$ 100 million).

**31. CAPITAL MANAGEMENT**

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. Capital adequacy regulations of CBB is based on the principles of Basel III of the IFSB guidelines.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2017

US\$ 000's

**31. CAPITAL MANAGEMENT (CONTINUED)**

The Group's regulatory capital is analysed into two tiers:

- **Tier 1 capital:** includes CET1 and AT1  
CET1 comprises ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.  
  
AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.
- **Tier 2 capital,** includes instruments issued by the Group that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

The regulatory adjustments are subject to limits prescribed by the CA module, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

As at 31 December the Group has made regulatory adjustments of US\$ 8,998 thousand (31 December 2016: US\$ 3,368 thousand) in line with the requirements of CA module.

Banking operations are categorised as banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's regulatory capital position as at 31 December was as follows:

	2017	2016
<b>Total risk-weighted exposures</b>	<b>556,800</b>	678,874
CET1 capital	<b>228,183</b>	232,023
Tier 1 capital	<b>228,183</b>	232,023
Total Capital	<b>228,362</b>	232,248
<b>% of Total Risk Weighted Exposures (CAR)</b>		
CET1 capital adequacy ratio	<b>40.98%</b>	34.18%
Tier1 capital adequacy ratio	<b>40.98%</b>	34.18%
Total capital adequacy ratio	<b>41.01%</b>	34.24%

The Group has complied with all externally imposed capital requirements throughout the year.

**32. SOCIAL RESPONSIBILITY**

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

**33. COMPARATIVES**

Certain prior year amounts have been regrouped to conform to current year's presentation. Such regrouping did not affect previously reported loss for the year or owners' equity.

## **DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK**

For The Year Ended 31 December 2017

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## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 1. INTRODUCTION

The disclosures under this section have been prepared in accordance with the CBB requirements outlined for Islamic banks in its Public Disclosure Module, of Volume 2 of the CBB rulebook (the "PD Module"). Rules concerning the disclosures under this section are applicable to Ibdar Bank B.S.C. (c) (Ibdar/the "Bank") being a locally incorporated Bank with a wholesale Islamic Investment banking license and subsidiaries (together known as "the Group"). This document should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017 and the qualitative disclosures in the annual report for the year ended 31 December 2017. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Bank for the year ended 31 December 2017. Information already included in the consolidated financial statements are not repeated.

#### 1.1 Pillar I - Minimum Capital Requirements

Pillar I deals with the rules for the computation of regulatory capital requirements in respect of credit, market and operational risk. It defines the various classes of assets and the calculation of Risk Weighted Assets (RWAs) in respect of each class of assets. The capital adequacy ratio is calculated as the ratio of the Bank's regulatory capital to its total risk weighted assets. All Bahrain incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12.5%.

##### 1.1.1 Credit risk

The Bank has adopted the standardized approach under which on and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. Under the standardized approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB.

##### 1.1.2 Market risk

The Bank has adopted the Standardized approach for determining the market risk capital requirement.

##### 1.1.3 Operational risk

The Bank has adopted the basic indicator approach for operational risk. It is calculated by applying a co-efficient of 15 percent to the average gross income for the preceding three financial years.

#### 1.2 Pillar II - The Supervisory Review and Evaluation Process

Pillar II involves the process of supervisory review of Bank's risk management framework and capital adequacy. It requires banks to hold additional capital for risks not covered by Pillar I. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, business risk and concentration risk.

Pillar II comprises of an Internal Capital Adequacy Assessment Process (ICAAP) and supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the Bank is exposed. The Bank has established an ICAAP which quantifies the capital requirements for the key risks that the Bank is exposed to including credit, investment, liquidity, strategic, reputation, operational, and concentration risks. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which are considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

#### 1.3 Pillar III - Market Discipline

Pillar III is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

##### 1.3.1 Pillar II quantitative and qualitative disclosures

For the purpose of computing regulatory minimum capital requirements, the Bank follows the rules as laid out under the CBB Rulebook module CA: Capital Adequacy.

There are no restrictions on the transfer of funds or regulatory capital within the group and all investments are made fully complying with the CBB approval instructions.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 1. INTRODUCTION (CONTINUED)

#### 1.4 Overall Risk and Capital Management

The consolidated financial statements of the Group has been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Bahrain Commercial Companies Law.

In the consolidated financial statements, subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continues to be consolidated to the date of loss of control.

For the purpose of computing the Capital Adequacy Ratio ("CAR") the Bank is not consolidating subsidiaries that are Commercial Entities.

The Bank does not hold interest in any insurance entities.

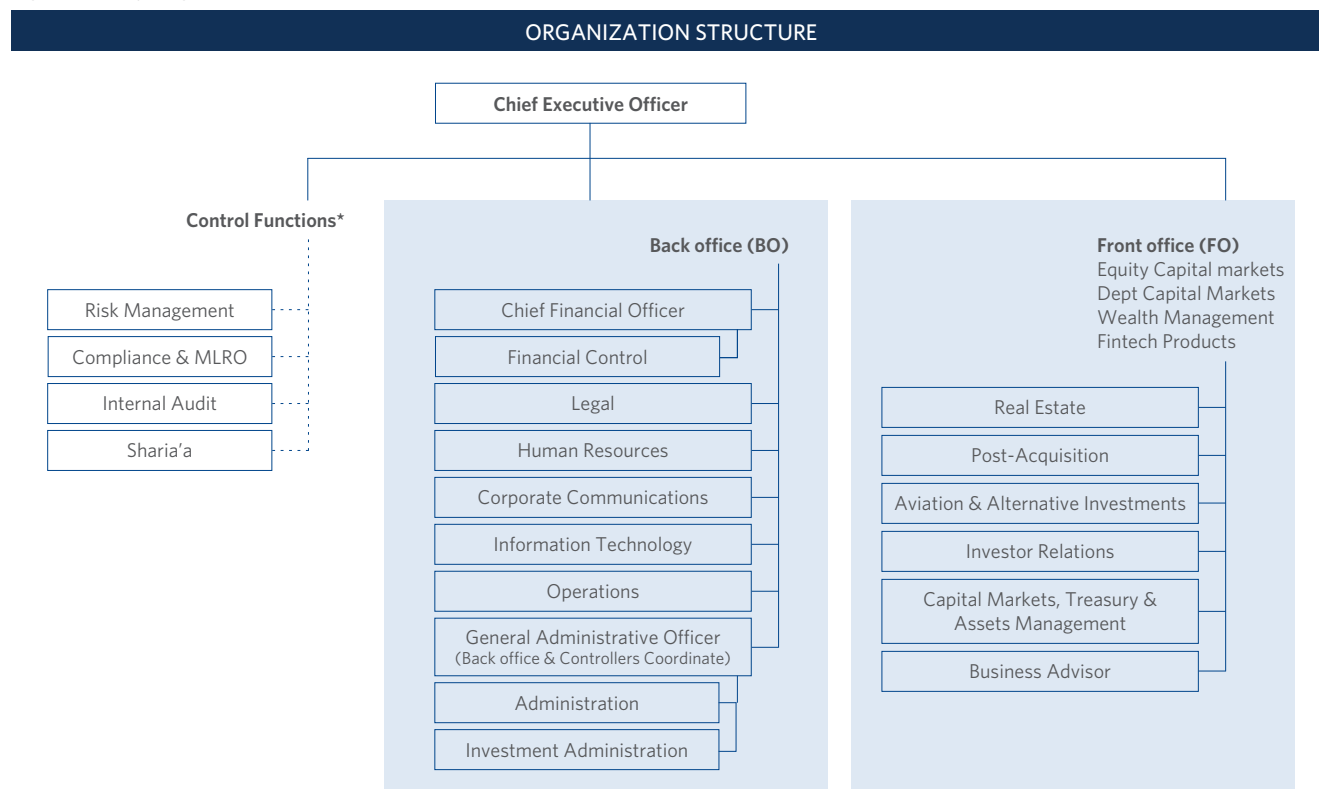
#### 1.5 Compliance with High Level Control (PD-1.3.10 (x))

In October 2010, CBB introduced requirements to Module (HC Module) that have to be met by all licensees with respect to, corporate governance principles to be in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry and Commerce; International best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision; and related high-level controls and policies. The Group made detailed self-assessments on the revised content of HC Module to ensure compliance with the new requirements with specific milestones for implementation of any shortfalls.

### 2. RISK MANAGEMENT STRUCTURE

The Board has the ultimate responsibility for understanding the nature and level of risk taken by the Bank. The Board is responsible for reviewing the strategy and objectives of the Bank with respect to various risks and ensures that there is a clear guidance regarding the level of risks acceptable to the Bank.

Figure 1 Group Organization Structure (PD-1.3.10(a))



\* Controllers are reporting to the respective BOD Committees & administratively to the CEO

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 2. RISK MANAGEMENT STRUCTURE (CONTINUED)

#### 2.1 Board of Directors (PD - 1.3.10 (n) and PD - 1.3.10 (o))

The Board is responsible for establishing objectives for the Bank and developing the strategies that direct the ongoing activities of the Bank to achieve those objectives. The Board is in process of reviewing and approving the Bank's strategy document which demonstrates that it is able to proactively identify and understand the risks that the Bank faces in achieving its business objectives through its business strategies and plans.

As part of its strategy review process, the Board at the minimum shall: (PD-1.3.10(n, o)):

- a. Review major strategy papers and business plans;
- b. Set performance objectives;
- c. Oversee major capital expenditures and acquisitions;
- d. Reassess annually the Bank's objectives, strategies and plans;
- e. Demonstrate its responsibility to supervisors, shareholders, employees & other stakeholders; and
- f. Monitor the control environment and risk profile of the Bank.
- g. Preparation of the financial statements of the Bank.

Detailed responsibilities of the Board are provided in the Bank's Articles of Association.

The Board has approved authority matrix which authorizes the senior management/committees to approve certain transactions. However, transactions which are beyond the authority matrix require Board or Excom approval.

The Board of Directors has delegated the management of the Bank to the Executive Management, comprising of Chief Executive Officer, Chief Investment Officer and Chief Financial Officer, who meet on a regular basis to discuss any issues and updates regarding operations and business of the Bank. The following sub-committees of the Board are involved in managing the risk and ensuring the compliance with the Bank's policies and risk management framework.

#### 2.2 Board Committees

##### 2.2.1 Executive Committee

###### 2.2.1.1 Objective/Function

Consider specific matters delegated to it by the full Board and make recommendations thereon to the Board or decisions based on authorities specifically delegated by the Board.

###### 2.2.1.2 Members

Abdulkarim Bucheery	Independent
Ebrahim Al Jassmi	Independent
Hamad Al Sejari	Executive
Jassem Al Yaseen	Executive

##### 2.2.2 Audit, Risk & Compliance Committee

###### 2.2.2.1 Objective/Function

To review the Banks financial reporting process, internal controls, and process for monitoring compliance with policies, procedures, laws and regulations and the Bank's own Code of Business Conduct.

###### 2.2.2.2 Members

Dr. Ahmed Al Balooshi [Chairman]*	Independent
Khalid Al Maarafi	Executive
Abdulaziz Al Afalaq	Independent
Dr. Mohamed Kameshki [Chairman]**	Independent

\* Dr. Ahmed Al Balooshi resigned from the board effective [11 May 2017].

\*\* Dr. Mohamed Kameshki was appointed effective [11 May 2017].

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 2. RISK MANAGEMENT STRUCTURE (CONTINUED)

#### 2.2 Board Committees (Continued)

##### 2.2.3 Nomination, Remuneration & Governance Committee

###### 2.2.3.1 Objective/Function

The Nomination, Remuneration & Governance Committee reviews and approves (according to the guidelines set by the Board) policies and procedures for the remuneration of Board members, Committees members, executive and non-executive employees.

###### 2.2.3.2 Members

Tareq Sadeq	Independent
Mohamed Nooruddin	Independent
Jamal Al Saleem	Non-Executive

#### 2.3 Management Committees

The following committees are the two management committees at Ibdar which are involved in managing and overseeing the Bank's activities, and in proposing new strategies, policies, and procedures to the Board. These Committees are:

##### 2.3.1 Asset and Liability Committee

###### 2.3.1.1 Objective/Function

The Asset and Liability Committee determines the appropriate levels of liquidity, and ensures that all future commitments are funded in the most appropriate and cost-efficient manner. The Committee also ensures that the Bank fully adheres to the requirements of the CBB regarding capital, liquidity, and mismatched risk. It ascertains that approved investment deposits limits are not exceeded, and Treasury management and dealing activities are within the policy guidelines set by the Board. Furthermore, it monitors and supervises the overall balance sheet structure.

###### 2.3.1.2 Members

Chief Executive Officer	Chairman
Chief Financial Officer	Member
Head of Treasury and Capital Markets	Member
Head of Risk Management	Member
Director - Treasury and Capital Markets	Member
Manager - Treasury and Capital Markets	Secretary

##### 2.3.2 Investment, Credit and Risk Committee

###### 2.3.2.1 Objective/Function

The Investment, Credit and Risk Committee is a senior management committee responsible for managing and supervising all activities related to investments, credit and risk management.

###### 2.3.2.2 Members

Chief Executive Officer	Chairman
Chief Financial Officer	Member
Head of Investor Relations	Member
Head of Risk Management	Non Voting Member
Head of Legal	Non Voting Member
Head of Treasury and Capital Market	Non Voting Member
Head of Advisory	Non Voting Member

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 3. CAPITAL ADEQUACY

The primary objective of the Group's capital management is to ensure that the Group maintains adequate risk capital, complies with the capital requirements laid down by the CBB and maintains a healthy capital ratio in order to support its business and maximize shareholder value.

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") as adopted by the CBB in supervising the Bank.

Regulatory capital consists of Common Equity Tier 1 capital ("CET1"), Additional Tier 1 Capital ("AT1") and Tier 2 capital (supplementary capital). The Group's Tier 1 comprises share capital, general reserves, statutory reserves, retained earnings/accumulated losses and unrealized gains and losses arising from fair valuing equities. Tier 2 includes asset revaluation reserve - property, plant and equipment and the general financing loss provisions. From the regulatory perspective, the significant amount of the Bank's capital is in Tier 1 form.

The Group's approach to assessing capital adequacy has been in line with its risk appetite aligned with its current and future activities. To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardized Approaches for its Credit Risk and Market Risk, and the Basic Indicator Approach for its Operational Risk.

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

Further the Bank monitors the CAR against an Internal Trigger Ratio of 20% compared to the required capital of 12.5% under CBB rulebook. If the ICAAP CAR touches the Internal Trigger Ratio, the Bank will initiate action to reduce its risk or increase capital before the Internal Target Ratio is breached.

#### Basis of Consolidation for Accounting and Regulatory Purposes

For the purpose of preparation of consolidated financial statements, the Bank consolidates all subsidiaries which are fully owned or exercises significant control over them. These subsidiaries are consolidated from date of acquisition being the date on which the group obtains control and continues until the control ceases. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. For regulatory purposes the Bank should consolidate all banking and other financial entities which are considered to be subsidiaries of the Bank. The treatment of the Bank's investments in all entities for the purpose of regulatory reporting is risk weighting of investment exposure. The principal subsidiaries and associates are as follows:

Subsidiaries	Country of incorporation	Total Assets	Total Equity	Description
Ibdar Corporate Services Limited*	British Virgin Islands	14,324	(6,426)	A company established to manage affiliated companies
Tamkeen Investment Company BSC	Kingdom of Bahrain	11,553	2,653	Administer Management Incentive Program ("MIP")
PKV Investment Company Limited	Cayman Islands	77,040,154	27,178,923	Investment holding vehicle for property lease
300 Riverpark - Amazon Robotics HQ	United States of America	48,301,992	21,131,092	Investment holding vehicle for property lease

Associates	Country of incorporation	Description
MENA Energy Limited	Kingdom of Saudi Arabia	Investment company holding a stake in an electrical services contracting company
Cumberland Palace Project Company Limited	United Kingdom	Investment holding vehicle for real estate development
Palma Ibdar Air Lease	Kingdom of Bahrain	Managing aircraft leasing to airline companies

\* The Bank has a commitment of USD 6 thousands towards the equity shortfall.

Associates which have been fully provided for, do not have any impact on regulatory reporting, and are not included in the table above.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 3. CAPITAL ADEQUACY (CONTINUED)

#### 3.1 Composition of capital disclosure

Table - 1. Statement of financial position under the regulatory scope of consolidation

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

(USD '000)	31 December 2017		Reference
	Statement of financial position as in published financial statements	Statement of financial position as per regulatory reporting	
<b>Assets</b>			
Cash and balances with banks	6,163	6,163	
Placements with financial institutions	5,031	5,031	
Investment in sukuk	91,127	91,127	
Of which related to insignificant investments in financial entities under CET1:	-	14,123	
Of which subject to regulatory adjustment from capital	-	3,884	E
Of which subject to risk weighting of investment exposure	-	10,239	
Of which related to other investments in sukuk	-	77,004	
Financing receivables	11,970	11,970	
Receivable from ijarah investors	5,892	5,892	
Investment in equity securities	88,987	131,415	
Of which related to insignificant investments in financial entities under CET1:	-	18,593	
Of which subject to regulatory adjustment from capital	-	5,113	F
Of which subject to risk weighting of investment exposure	-	13,480	
Of which related to significant investments in financial entities under CET1	-	13,995	G
Of which related to other investments	-	98,827	
Investment in real estate	144,201	25,579	
Equity-accounted investees	461	461	
Other assets	12,865	6,054	
<b>Total assets</b>	<b>366,697</b>	<b>283,692</b>	
<b>Liabilities</b>			
Placements from financial institutions	2,002	2,002	
Financing liabilities	102,370	26,090	
Other liabilities	17,682	18,141	
Of which related to collective impairment provisions	-	179	H
Of which related to other liabilities	-	17,962	
<b>Total liabilities</b>	<b>122,054</b>	<b>46,233</b>	
<b>Shareholders' Equity</b>			
Share capital	233,000	233,000	A
Statutory reserve	762	762	C
Retained earnings/(accumulated losses)	1,138	(1,199)	B
Property fair value reserve	278	278	
General reserve	4,618	4,618	D
<b>Equity attributable to shareholders of the Bank</b>	<b>239,796</b>	<b>237,459</b>	
Non-controlling interests	4,847	-	
<b>Total owners' equity</b>	<b>244,643</b>	<b>237,459</b>	
<b>Total liabilities and owners' equity</b>	<b>366,697</b>	<b>283,692</b>	

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 3. CAPITAL ADEQUACY (CONTINUED)

#### 3.1 Composition of capital disclosure (Continued)

Table - 2. Composition of regulatory capital

The table below provides a detailed breakdown of the bank's regulatory capital components, including all regulatory adjustments. The table also provides reference to the comparison displayed in Table 1 between accounting and regulatory statement of financial positions.

(USD '000)	31 December 2017		
	Components of regulatory capital	Amounts subject to pre-2015 treatment	Reference
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
Directly issued qualifying common share capital plus related stock surplus	233,000	-	A
Retained earnings	(1,199)	-	B
Accumulated other comprehensive income (and other reserves)	5,380	-	C+D
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>237,181</b>	-	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>			
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(2,903)	22,161	E+F
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	13,995	G
Regulatory adjustments applied to common equity Tier 1 in respect of amounts subject to pre-2015 treatment	(6,094)	-	E+F
<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>(8,998)</b>	<b>36,156</b>	
<b>Common Equity Tier 1 capital (CET1)</b>	<b>228,183</b>		
<b>Additional Tier 1 capital (AT1)</b>	<b>-</b>		
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>228,183</b>		
<b>Tier 2 capital: instruments and provisions</b>			
Provisions	179		G
<b>Tier 2 capital before regulatory adjustments</b>	<b>179</b>		
<b>Tier 2 capital (T2)</b>	<b>179</b>		
<b>Total capital (TC = T1 + T2)</b>	<b>228,362</b>		
<b>Risk weighted assets in respect of amounts subject to pre-2015 treatment</b>	<b>63,261</b>		
Of which: Insignificant investments in the common shares of financial entities <10% - Listed (RW at 100%)	14,610		
Of which: Insignificant investments in the common shares of financial entities <10% - Unlisted (RW at 150%)	13,664		
Of which: Significant investment in the common shares of financial entities >10% (RW at 250%)	34,988		
<b>Total risk weighted assets</b>	<b>556,799</b>		
<b>Capital ratios and buffers</b>			
<b>Common Equity Tier 1 (as a percentage of risk weighted assets)</b>	<b>40.98%</b>		
<b>Tier 1 (as a percentage of risk weighted assets)</b>	<b>40.98%</b>		
<b>Total capital (as a percentage of risk weighted assets)</b>	<b>41.01%</b>		
National minima including CCB (where different from Basel III)			
CBB Common Equity Tier 1 minimum ratio	6.50%		
CBB Tier 1 minimum ratio	8.00%		
CBB total capital minimum ratio	10.00%		

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 3. CAPITAL ADEQUACY (CONTINUED)

#### 3.1 Composition of capital disclosure (Continued)

Disclosure template for main feature of regulatory capital instruments as at 31 December 2017:

1	<b>Issuer</b>	Ibdar Bank BSC (c)
2	<b>Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)</b>	NA
3	<b>Governing law(s) of the instrument</b>	All applicable laws and regulations of the Kingdom of Bahrain
<b>Regulatory treatment</b>		
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Equity shares
8	<b>Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)</b>	USD 233 million
9	<b>Par value of instrument</b>	USD 1.00
10	<b>Accounting classification</b>	Shareholder's equity
11	<b>Original date of issuance</b>	31 December 2012
12	<b>Perpetual or dated</b>	Perpetual
13	Original maturity date	No maturity
14	<b>Issuer call subject to prior supervisory approval</b>	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
<b>Coupons / dividends</b>		
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	<b>Write-down feature</b>	NA
31	If write-down, write-down trigger (s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	<b>Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)</b>	NA
36	<b>Non-compliant transitioned features</b>	NA
37	<b>If yes, specify non-compliant features</b>	NA

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 3. CAPITAL ADEQUACY (CONTINUED)

#### 3.1 Composition of capital disclosure (Continued)

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

The following table summarizes the capital requirements by type of Islamic financing contracts:

Table - 3.1 The following table summarizes the capital requirements by type of Islamic financing contracts:

(USD '000)	31 December 2017		
	Gross Exposure Amount	Risk Weighted Amount	Capital Requirements
<b>Type of Islamic financing contracts</b>			
Mudaraba	5,031	1,006	126
Murabaha	11,970	11,970	1,496
Sukuk	59,501	27,035	3,379
	<b>76,502</b>	<b>40,011</b>	<b>5,001</b>

Table - 3.2 Capital requirement for credit risk by type of exposure:

(USD '000)	31 December 2017		
	On- & Off Balance Sheet Credit Exposures before CRM	Credit Risk Weighted Assets	Capital Requirements
Claims on Sovereigns	31,665	-	-
Claims on PSEs	19,465	12,715	1,589
Claim on Banks	11,193	2,343	293
Claim on Corporations	6,126	6,126	766
Investments in Equity Securities and Equity Sukuk	72,687	115,721	14,465
Holding of Real Estate	93,842	324,190	40,524
Other Assets	22,866	28,384	3,548
	<b>257,844</b>	<b>489,479</b>	<b>61,185</b>

Table - 4. Capital requirement for Market risk (PD-1.3.18)

The following table summarizes the amount of exposures subject to the standardized approach of market risk and related capital requirements:

(USD '000)	31 December 2017
<b>Market Risk - Standardized Approach</b>	
Price Risk	-
Equity Position Risk	-
Sukuk Risk	843
Foreign exchange risk	1,849
<b>Total of market risk - standardized approach</b>	<b>2,692</b>
Multiplier	12.5
<b>Total Market Risk Weighted Exposures</b>	<b>33,650</b>
<b>Minimum capital requirement (12.5%)</b>	<b>4,206</b>

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 3. CAPITAL ADEQUACY (CONTINUED)

#### 3.1 Composition of capital disclosure (Continued)

Table - 5. Capital Requirements for Operational risk (PD-1.3.19 and PD-1.3.30)

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

(USD '000)		31 December 2017		
Indicators of operational risk				
Year	2016	2015	2014	
Gross Income	18,135	22,911	12,826	
<b>Average gross income</b>				<b>17,957</b>
Multiplier				12.5
				<b>224,467</b>
Eligible Portion for the purpose of the calculation				15%
<b>Total operational Risk Weighted Exposures</b>				<b>33,670</b>
<b>Minimum capital requirement (12.5%)</b>				<b>4,209</b>

### 4. RISK MANAGEMENT

#### 4.1 Overview

##### 4.1.1 Bank-wide Risk Management Objectives

The risk management objective for each area of risk is to adopt the industry best practices and adhere to Basel II and CBB requirements. The Bank identifies, captures, monitors and manages different dimensions of risk with the aim to protect asset values and income streams, and to optimize the Bank's shareholder return, while maintaining its risk exposure within defined parameters. The Bank's management believes in the proactive management of risk in the full cycle of a financial transaction including its operating circumstances from the origination stage to its final disposal from the books of the Bank.

The Bank reviews and redefines its risk appetite according to the evolving business plan of the Bank, which includes fluctuations in economic and market conditions and future forecasts.

##### 4.1.2 Strategies Processes and Internal Controls

The Bank's risk strategy, backed by appropriate limit structures, is articulated through risk management policies and procedures. These policies and procedures are an integral part of an enterprise-wide integrated risk management framework at the Bank. These policies and procedures identify risk objectives, processes, strategies and risk governance both at the board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses. Limit structures serve as a key component in articulating risk strategy in quantifiable risk appetite. In addition, the Bank intends to implement various risk systems to help quantify not just the regulatory capital but also the economic capital allocated to various portfolios.

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

#### Credit Risk

The Bank manages its credit risk exposures by assessing the credit worthiness of all customers & counterparties. For each new product & activity, the Bank evaluates credit risk introduced by it. The Bank has established a limit structure to avoid concentration of risks for counterparty, sector and geography.

#### Market Risk

The Bank is not exposed to significant market risk due to the nature of its activities and its limited market risk exposure is managed through combination of limits, internal controls & processes. The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.1 Overview (Continued)

##### Operational Risk

The Bank has established a Risk Control and Self Assessment ("RCSA") process necessary for identifying and measuring and controlling its operational risks. This exercise covers the Bank's business lines and associated critical activities, exposing the Bank to operational risks.

##### Equity Risk in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. The Group manages and monitors its equity risk using sector, geography and investment type limits.

The strategy used has been effective throughout the year.

##### Profit Rate Risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group manages its profit rate risk using various risk management tools and methodologies.

##### Displaced Commercial Risk

Displaced Commercial Risk ("DCR") refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Bank does not have DCR as it does not have any Restricted or Unrestricted Investment Accounts.

#### 4.1.3 Risk Measurement and Reporting System

The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Group has established relevant risk limit structures to quantify its risk appetite. Audit, Risk and Compliance Committee ("ARCC") reviews and recommends the limits, suggested by the Investment, Credit and Risk Committee ("ICRC") to the Board which is ultimately responsible for the final approval of the limit. The monitoring and controlling of risks is managed through limits approved by the Board. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

The Risk Management Department ("RMD") presents reports to the Board of Directors through ICRC and ARCC. These reports include risk and investment review of Group's portfolio and its impact on Group's capital adequacy.

As part of the Risk Management reporting framework, risk reports are prepared and distributed in order to ensure that all business divisions have access to necessary and up-to-date information. A periodic briefing is given to the Risk Committee on the utilization of limits, proprietary investments, and liquidity, plus any other risk developments.

#### 4.2 Credit risk

##### 4.2.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

The Group is not involved in the granting of credit facilities in the normal course of its business activities. The credit risk exposures faced by the Group are principally in respect of its placements with other financial institutions and in respect of investment related funding made to projects. The investment related funding exposures arise in the ordinary course of its investment banking activities. All such exposures are reviewed periodically for recoverability and specific provisions made where necessary having regard to the nature of the exposure and the assessment of collection. The Group uses the Standardized Approach for measuring its credit risk. The Group uses ratings from External Credit Assessment Institutions recognized by the CBB for its Group counterparty exposures, wherever available.

Counterparty limits are established by the use of a comprehensive approval process. All lines of counterparty credit limits are subject to annual reaffirmation by the Board of Directors. The limits are also reviewed frequently to ensure consistency with the Group's risk appetite and to take into account the latest market developments. Given the nature of the Group's business, the Group uses nominal balance sheet amounts including accrued interest and other receivables as its measure of exposure.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.2 Credit risk (Continued)

##### 4.2.2 Types of Credit Risk

Financing receivables mainly comprise of Murabaha (International Commodity) and Musharaka.

##### 4.2.2.1 Murabaha (International Commodity)

A commodity Murabaha is a contract between the Bank and its client for the sale of goods at a price plus an agreed profit margin for the Bank. The instrument is called an international commodity Murabaha because the profits are made on the international buying and selling of a commodity, usually metal, such as copper, aluminum or lead.

##### 4.2.2.2 Musharaka

Musharaka financing is partnership in which the Group contributes capital. These are stated at the fair value of consideration given less impairment.

##### 4.2.3 Past Due and Impaired Islamic Financing

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

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

Financing receivables are stated at cost less impairment allowances. Specific provisions are created for impairment where losses are expected to arise on non-performing contracts. These assets are written off when they are considered to be uncollectable to reduce all impaired assets to their expected realizable values. Deferred income and provision for impairment are netted off against the related receivables. The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired.

Impairment losses on murabaha receivables and debt-type instruments at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognized in the consolidated statement of income and reflected in an allowance account against murabaha receivables and debt-type instruments at amortized cost. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

##### 4.2.4 External Credit Assessment Institutions (ECAI)

To assess the creditworthiness of Financial Institutions ("FI") the Group relies on external ratings by ECAI. In case of unrated FIs, the Group will assess the credit risk on the basis of its internally developed approach & methodology. The Bank uses ECAI's for due from financial institutions and its sukuk portfolio carried at amortised cost.

##### 4.2.5 Definition of Geographical Area

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

##### 4.2.6 Concentration Risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector or geographic region. As per CBB's single obligor regulations, Banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. In case any exposure exceeds the CBB's prescribed limits, Group obtains approval from the CBB. Currently, the Bank does not have any exposure that exceeds this threshold.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.2 Credit risk (Continued)

##### 4.2.7 Credit Risk Mitigation

Credit risk mitigation is defined as the utilization of a number of techniques, such as collaterals and guarantees to mitigate the credit risks that the Group is exposed to. The Group's first priority when establishing Islamic financing is to determine the borrower's capacity to repay and not to rely principally on security or collateral. Nonetheless, the Group is in the process of developing its collateral management policy which would be in line with its business activities.

##### 4.2.8 Counterparty Credit Risk

###### 4.2.8.1 Introduction

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

The measure of exposure reflects the maximum loss that the Group may suffer in case the counterparty fails to fulfill its commitments. Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. Large exposure is any exposure whether direct, indirect or funded by restricted investment accounts to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's Capital Base. The Group has adopted Standardized Approach to allocate capital for counterparty credit risk.

###### 4.2.8.2 Credit Limit Structure

The Bank has put in place an internal counterparty limit structure which is based on internal or external ratings for different types of counterparties. The Bank has also set concentration limits as a percentage of shareholders equity. In case of a counterparty rating degrade, the Bank may require further collateral or advise the counter party to reduce its exposure on a case by case basis.

###### Reporting

The Bank reports large counterparty exposures to CBB and senior management on periodic basis. The Bank reports the exposures on a gross basis without any offset. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Bank has a legally enforceable right to do so.

###### Early warning indicators

The Bank maintains a strong focus on identification of signs of deterioration in credit quality at an early stage in order to take remedial measures before the facility becomes substandard or doubtful.

###### 4.2.8.3 Connected counterparties

Connected counterparties includes companies or persons connected with the bank, including, in particular, subsidiaries and associated companies (whether such association is due to control or shareholding or otherwise), Directors and their associates (whether such association is due to control or family links or otherwise), members of the Shari'a Supervisory Board, management and other staff, and shareholders holding 10% or more of the voting power of the bank.

As a strategy, exposure to connected counterparties may be undertaken only when negotiated and agreed on an arm's length basis. The Bank shall not assume any exposure to its external auditors or members of Shari'a Supervisory Board. The disclosure relating to related party transactions has been made in the consolidated financial statements. All related party transactions have been executed at arm's length basis.

###### 4.2.8.4 Highly Leverage Counterparties

The Bank assess counterparties through financial and non-financial due diligence and uses CBB's definition of Highly Leveraged Counterparties to determine exposure to them. The Bank is not exposed to any Highly Leveraged Counterparties.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.2 Credit risk (Continued)

##### 4.2.8.5 Restructuring of Credit Facilities

No facilities were restructured during the year 2017.

##### 4.2.8.6 Recourse Transactions

The Bank does not currently have any obligations with respect to recourse transactions.

Table - 6.1 Breakup of provision by industry for financing receivables exposures (PD-1.3.23(h & i)) and (PD-1.3.24(c))

(USD '000)	Real Estate	Others	Total
Specific Provision	-	8,376	8,376
Collective Provision	127	52	179

Table - 6.2 Breakup of provision by geographical area for financing receivables exposures (PD-1.3.23(h & i)) and (PD-1.3.24(c))

(USD '000)	Middle East	Africa	Total
Specific Provision	-	8,376	8,376
Collective Provision	179	-	179

Table - 6.3 Reconciliation of changes in provisions (PD-1.3.23(h & i)) and (PD-1.3.24(c))

(USD '000)	Opening	Charged/ (reversed) during the year	Closing
Specific Provision	8,610	(234)	8,376
Collective Provision	225	(46)	179

Table - 6.4 Past due facilities

There has been no past due facilities as of 31 December 2017.

#### 4.2.9 Credit risk mitigation

The credit exposure information presented in table 7 of this report represents gross exposures prior to the application of any credit risk mitigation techniques. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. However, extending credit facilities is not a part of the Bank's core business activities. The Bank's credit risk mainly arises from its investment transactions.

Nonetheless, the Bank intends to develop its collateral management policy and provisioning policy which would be in line with its business activities.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.2 Credit risk (Continued)

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

The following table summarizes the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

(USD '000)	31 December 2017	
	Total gross credit exposure	*Average gross credit exposure over the year
<b>Funded exposure</b>		
Cash & balances with banks	6,163	7,147
Placements with financial institutions	5,031	4,273
Investment in sukuk	91,127	88,336
Financing receivables	11,970	8,850
Assets acquired for leasing	-	16,858
Receivable from Ijara investors	5,892	6,374
Investment in equity securities	88,987	91,803
Equity-accounted investees	461	1,539
Investment in real estate	144,201	109,620
Other assets	12,865	22,975
<b>Total Funded Exposures</b>	<b>366,697</b>	<b>357,774</b>
<b>Unfunded exposure</b>		
Uncalled capital commitments in respect of investment	4,243	5,132
Operating lease commitments - within one year	242	227
Operating lease commitments - over one year	-	106
<b>Total Unfunded Exposures</b>	<b>4,485</b>	<b>5,465</b>

\*Average balances are computed based on quarter-end balances.

\*\* Sold during Q2 with a gain of US\$ 2.1m. Hence, average is computed for only one quarter.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.2 Credit risk (Continued)

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

The following table summarizes the geographic distribution of funded and unfunded exposures, broken down into significant areas by major types of credit exposure as of:

(USD '000)	31 December 2017					Total
	Middle East	Europe	Africa	North America	Others	
<b>Funded exposure</b>						
Cash & balances with banks	3,405	2,758	-	-	-	6,163
Placements with financial institutions	5,031	-	-	-	-	5,031
Investment in sukuk	82,808	-	-	-	8,319	91,127
Financing receivables	11,970	-	-	-	-	11,970
Receivable from Ijara investors	5,892	-	-	-	-	5,892
Investment in equity securities	58,653	19,342	10,992	-	-	88,987
Equity-accounted investees	461	-	-	-	-	461
Investment in real estate	25,580	-	-	118,621	-	144,201
Other assets	4,965	310	160	7,411	19	12,865
<b>Total Funded Exposures</b>	<b>198,765</b>	<b>22,410</b>	<b>11,152</b>	<b>126,032</b>	<b>8,338</b>	<b>366,697</b>
<b>Unfunded exposure</b>						
Uncalled capital commitments in respect of investment	2,082	-	-	2,161	-	4,243
Operating lease commitments - within one year	242	-	-	-	-	242
Operating lease commitments - over one year	-	-	-	-	-	-
<b>Total Unfunded Exposures</b>	<b>2,324</b>	<b>-</b>	<b>-</b>	<b>2,161</b>	<b>-</b>	<b>4,485</b>

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.2 Credit risk (Continued)

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

The following table summarizes the distribution of funded and unfunded exposure by industry type broken down by major types of credit exposure as of:

(USD '000)	31 December 2017					Total
	Banks and financial institutions	Real Estate	Aviation	Sovereign	Others	
<b>Funded exposure</b>						
Cash & balances with banks	6,163	-	-	-	-	6,163
Placements with financial institutions	5,031	-	-	-	-	5,031
Investment in sukuk	28,916	5,832	-	33,820	22,559	91,127
Financing receivables	-	6,793	-	-	5,177	11,970
Receivable from Ijara investors	-	-	-	-	5,892	5,892
Investment in equity securities	29,875	42,446	-	-	16,666	88,987
Equity-accounted investees	-	-	461	-	-	461
Investment in real estate	-	144,201	-	-	-	144,201
Other assets	302	7,717	-	408	4,438	12,865
<b>Total Funded Exposures</b>	<b>70,287</b>	<b>206,989</b>	<b>461</b>	<b>34,228</b>	<b>54,732</b>	<b>366,697</b>
<b>Unfunded exposure</b>						
Uncalled capital commitments in respect of investment	-	-	-	-	4,243	4,243
Operating lease commitments - within one year	-	-	-	-	242	242
Operating lease commitments - over one year	-	-	-	-	-	-
<b>Total Unfunded Exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,485</b>	<b>4,485</b>

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.2 Credit risk (Continued)

Table - 10. Maturity breakdown of credit exposures (PD-1.3.23(g))

The maturity breakdown for balances with banks, placements with financial institutions and financing receivables were based on residual commercial period. For the remaining exposures the residual maturities was determined based on management's expected realization period as of 31 December 2017.

(USD '000)	Up to 3 months	3 months to 1 year	Total up to 1 year	1 to 5 years	5 to 10 years	No fixed maturity	Total
<b>Funded exposure</b>							
Cash & balances with banks	6,163	-	6,163	-	-	-	6,163
Placements with financial institutions	-	5,031	5,031	-	-	-	5,031
Investment in sukuk	-	-	-	22,745	54,259	14,123	91,127
Financing receivables	-	5,177	5,177	6,793	-	-	11,970
Receivable from Ijara investors	-	-	-	5,892	-	-	5,892
Investment in equity securities	-	-	-	-	-	88,987	88,987
Equity-accounted investees	-	-	-	-	-	461	461
Investment in real estate	-	-	-	-	-	144,201	144,201
Other assets	11,086	805	11,891	548	-	426	12,865
<b>Total Funded Exposures</b>	<b>17,249</b>	<b>11,013</b>	<b>28,262</b>	<b>35,978</b>	<b>54,259</b>	<b>248,198</b>	<b>366,697</b>
<b>Unfunded exposure</b>							
Uncalled capital commitments in respect of investment	-	4,243	4,243	-	-	-	4,243
Operating lease commitments - within one year	-	242	242	-	-	-	242
Operating lease commitments - over one year	-	-	-	-	-	-	-
<b>Total Unfunded Exposures</b>	<b>-</b>	<b>4,485</b>	<b>4,485</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,485</b>

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.2 Credit risk (Continued)

Table - 11. Maturity Profile (PD-1.3.38)

The maturity profile of the Group's assets and liabilities are based on contractual repayment arrangements. The contractual maturities of financial assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date. For the remaining assets and liabilities, the maturity is determined based on expected realization/ profit settlement. The consolidated maturity profile at 31 December 2017 was as follows:

2017 (USD '000)	Up to 3 months	3 months to 1 year	Total up to 1 year	1 to 5 years	5 to 10 years	No fixed maturity	Total
<b>Assets</b>							
Cash and balances with banks	6,163	-	6,163	-	-	-	6,163
Placements with financial institutions	-	5,031	5,031	-	-	-	5,031
Investment in sukuk	-	-	-	22,745	54,259	14,123	91,127
Financing receivables	-	5,177	5,177	6,793	-	-	11,970
Receivable from Ijarah investors	-	-	-	5,892	-	-	5,892
Investment in equity securities	-	-	-	-	-	88,987	88,987
Equity-accounted investees	-	-	-	-	-	461	461
Investment in real estate	-	-	-	-	-	144,201	144,201
Other assets	11,086	805	11,891	548	-	426	12,865
<b>Total assets</b>	<b>17,249</b>	<b>11,013</b>	<b>28,262</b>	<b>35,978</b>	<b>54,259</b>	<b>248,198</b>	<b>366,697</b>
<b>Liabilities</b>							
Placements from financial institutions	2,002	-	2,002	-	-	-	2,002
Financing liabilities	20,049	-	20,049	6,041	76,280	-	102,370
Other liabilities	822	4,820	5,642	196	-	11,844	17,682
<b>Total liabilities</b>	<b>22,873</b>	<b>4,820</b>	<b>27,693</b>	<b>6,237</b>	<b>76,280</b>	<b>11,844</b>	<b>122,054</b>
Commitments	-	4,485	4,485	-	-	-	4,485
<b>Net liquidity gap</b>	<b>(5,624)</b>	<b>1,708</b>	<b>(3,916)</b>	<b>29,741</b>	<b>(22,021)</b>	<b>236,354</b>	<b>240,158</b>
<b>Cumulative net liquidity gap</b>	<b>(5,624)</b>	<b>(3,916)</b>	<b>-</b>	<b>25,825</b>	<b>3,804</b>	<b>240,158</b>	<b>-</b>

#### 4.3 Market risk

##### 4.3.1 Introduction

Market risk is defined as the risk of losses in on-balance sheet and off-balance-sheet positions arising from movements in market prices. The risks subject to this requirement are:

- The risks pertaining to profit rate related instruments and equities in the trading book; and
- Foreign exchange risk and commodities risk throughout the Bank.

The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

##### 4.3.2 Market Risk Factor

For the Bank, market risk may arise from movements in foreign exchange rates. A single transaction or financial product may be subject to foreign exchange risk.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.3 Market risk (Continued)

##### 4.3.3 Market Risk Strategy

The Board is responsible for approving and reviewing the market risk strategy. The Bank's senior management is responsible for implementing the market risk strategy approved by the Board, and continually enhancing the market policies and procedures for identifying, measuring, monitoring and controlling market risks.

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

- The Bank will proactively monitor and manage the market risk in its portfolio using a Board approved limit structure;
- The Bank will establish a market risk appetite which will be quantified in terms of a market risk limit structure for monitoring its market risk. This will be approved by the RC and the Board;
- The Bank will at all times hold sufficient capital in line with the Pillar I regulatory capital requirements of the CBB
- The Bank will carry out stress testing periodically to assess the effect of extreme movements in market variables which may expose the Bank to high risks;
- The Bank will clearly identify the foreign currencies in which it wishes to deal in. The Bank will manage its market risk in all foreign currencies in which it has significant exposure; and
- The Bank will manage its market risk exposure by evaluating each new product or activity with respect to the market risk introduced by it.

##### 4.3.4 Market Risk Measurement Methodology

The Group is not exposed to significant market risk due to the nature of its activities and hence uses measurements involving a combination of limits to control market risk exposures. The Board approves the overall market risk appetite and delegates responsibility for providing oversight on the Bank's market risk exposures and the sub allocation of Board limits to the ALCO. Risk Management is responsible for the market risk control framework and for monitoring compliance with the limit framework. The Group separates market risk exposures into either trading or non-trading portfolios. Trading portfolios primarily include positions arising from proprietary position-taking of Sukuks. Non-trading portfolios include positions that arise from the foreign exchange and other marked-to-market positions in financial assets designated as fair value through other comprehensive income statement. Market risk reports covering Trading Book risk exposures are report daily to the bank's senior management. The measurement techniques used to measure and control market risk include exposure and stop loss limits and stress tests.

For calculating the market risk capital charge, the Group applies the Standardized Approach.

##### 4.3.5 Market Risk Monitoring & Reporting and Limits Structure

The Bank uses a combination of limits to control its market risk exposures. Positions are monitored on a regular basis to ensure risk is maintained within established limits.

**Table - 12. Market Risk Capital Requirements**

The following table summarizes the capital requirement for each category of market risk as of:

(USD '000)	31 December 2017			
	Weighted risk exposures	Market risk capital requirement	Maximum value of RWE	Minimum value of RWE
Foreign exchange risk	23,113	2,889	<b>25,638</b>	<b>23,113</b>
Sukuk risk	10,538	1,317	<b>12,999</b>	<b>8,400</b>
<b>Total risk weighted exposures</b>	<b>33,650</b>	<b>4,206</b>	-	-

As of 31 December 2017, the Group holds a portfolio of trading sukuku amounting to USD 17,503 thousand with a total gain of USD 935 thousand.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.4 Operational risk

##### 4.4.1 Introduction

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Board has the ultimate responsibility for operational risk. Oversight rests with the RC, ICRC and RMD. Risk and Control Self Assessment ("RCSA") is an annual exercise as per Bank's policy and is a requirement by CBB based on Basel II principles related to operational risk management.

The Group has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") to enable the Group to survive a disaster and to re-establish normal business operations. The DR&BCP will enable the Group to minimize interruptions to business service operations, resume critical operations within a specified time after a disaster, minimize financial loss due to disruptions, limit the severity of the disruption, expedite the restoration of services and maintain a positive public image of the Bank.

##### 4.4.2 Sources of Operational Risk

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

**People Risk** which arise due to staffing inadequacy, unattractive remuneration structure, lack of staff training, lack in procedures for appointment, unhealthy professional working relationship and unethical environment;

**Processes Risk** which arise due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate or inadequate monitoring and reporting; and

**Systems (Technology) Risk** which arise due to the Integrity of information, hardware failures due to power surge, obsolescence, low quality and software failure due to unauthorized or incorrect modifications to software programs, computer virus, programming bug.

##### 4.4.3 Operational Risk Management Strategy

The Bank's Board is responsible for approving and reviewing (at least annually), the operational risk strategy and significant amendments to the operational risk policies. The Bank's senior management is responsible for implementing the operational risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank continuously monitors the process and controls framework surrounding all business units to assess their effectiveness and efficiency.

As a strategy the Bank will identify the sources of operational risks in coordination with each business unit.

##### Management and Reporting of KRIs

The Bank plans to integrate the process of KRIs into the RCSA process and then start reporting KRIs to senior management.

##### Incident reporting

An incident is the occurrence of an operational risk event that has caused, or has the potential to cause a financial, reputation or regulatory impact on the Bank. It includes credit or market risk events, which have been caused by an operational risk event, and non-compliance with any legal or regulatory requirement, license, internal policy or procedure or code.

##### Operational Loss Database

The Operational Loss Database (OLD) is a key component to quantify past operational risk exposures. The OLD contains a subset of the information captured by the incident reporting process since all incidents involving an actual or potential financial impact (including near misses) is captured.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.4 Operational risk (Continued)

##### 4.4.4 Operational Risk Monitoring and Reporting

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

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

##### 4.4.5 Operational Risk Mitigation and Control

Control activities are necessary to address the specific operational risks that the Bank has identified through the RCSA process. For the material risks identified by the Bank, the Bank decides whether to use procedures to control, mitigate, transfer, or accept the risks.

The Bank has several options for controlling and/or mitigating these risks:

- Decline to accept the risk (i.e. by avoiding certain business strategies or customers)
- Accept and retain the risk but introduce mitigating internal or external controls
- Accept the risk and transfer it in part or in whole.

##### Key controls

The Bank aims to control the operational risks it is exposed to by strengthening its internal controls, continuing its efforts to identify, assess, measure and monitor its risks, evolving in its risk management sophistication and promoting a strong control culture within the Bank.

Each business unit head is responsible for ensuring that the internal controls relevant to its operations are complied with on a day to day basis in spirit as well as in letter. The Bank will furthermore establish control processes and procedures and implement a system for ensuring compliance with these internal risk control processes and procedures.

##### 4.4.6 Disaster Recovery and Business Continuity Plan ("DR&BCP")

The Bank has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") based on risk review of the banks activities. The Bank ensures that business recovery & contingency plans are reviewed and updated periodically.

In particular, the DR&BCP will satisfy the following:

- it will cover incidents related to IT, communication and premises;
- testing will include critical business processes; and
- testing will cover critical types of plausible scenarios to which the Bank may be vulnerable.

#### 4.5 Equity price risk

##### 4.5.1 Equity price risk management

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2017, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus USD 1,201 thousand (2016: USD 916 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements.

An assessment is made at each year-end to determine whether there is any objective evidence that equity investments may be impaired. Any impairment for significant and prolonged decline in the value of investments is reflected as a write down of investments. Any subsequent increase in their fair value is recognized directly in equity. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.5 Equity price risk (Continued)

Table - 13. Equity Position Risk in the Banking Book (PD-1.3.31(b), (c) & (f))

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

(USD '000)	Total gross exposure	* Average gross exposure over the period	Publicly Traded	Privately held	Capital requirement
Fair value through income statement	38,150	36,138	14,123	24,027	4,769
Fair value through equity	64,960	69,407	5,029	59,931	8,120
Investment in equity-accounted investees	461	1,539	-	461	58
	<b>103,571</b>	<b>107,084</b>	<b>19,152</b>	<b>84,419</b>	<b>12,946</b>

\*Average balances are computed based on quarter-end balances.

Table - 14. Equity gains or losses in the Banking Book (PD-1.3.31(d) to (e))

The following table summarizes the cumulative realized gains / (losses) during the year ended:

(USD '000)	31 December 2017
Realized gains/(losses) arising from sale of equity type sukuk (non-trading)	72

#### 4.6 Rate of return risk

##### 4.6.1 Rate of return risk management

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised based on contractual repayment arrangements:

Table - 15. Rate of Return Risk

2017 (USD '000)	Up to 3 Months	3 months to 1 year	1 to 5 years	Above 5 Years	Total
<b>Assets</b>					
Placements with financial institutions	-	5,031	-	-	5,031
Financing receivable	-	5,177	6,793	-	11,970
Investment in sukuk	-	-	22,745	68,382	91,127
<b>Total profit rate sensitive assets</b>	-	<b>10,208</b>	<b>29,538</b>	<b>68,382</b>	<b>108,128</b>
<b>Liabilities</b>					
Placements from financial institutions	2,002	-	-	-	2,002
Financing liabilities	20,049	-	6,041	76,280	102,370
<b>Total profit rate sensitive liabilities</b>	<b>22,051</b>	-	<b>6,041</b>	<b>76,280</b>	<b>104,372</b>
<b>Profit rate sensitivity gap</b>	<b>(22,051)</b>	<b>10,208</b>	<b>23,497</b>	<b>(7,898)</b>	<b>3,756</b>

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.6 Rate of return risk (Continued)

##### 4.6.1 Rate of return risk management (Continued)

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by USD 75 thousand (2016:USD (925) thousand).

The rate of return risk is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers. The Group is not exposed to any significant rate of return risk and is aware of the factors that give rise to rate of return risk. Factors that possibly will affect rate of return may include an increase in long-term fixed rates in the market. The Bank is also aware of the fact that in general, profit rates earned on assets reflect the benchmark of the previous period and do not correspond immediately to changes in increased benchmark rates.

The Bank uses a combination of mismatch gap limits to measure and control its rate of return risk. Mismatched positions are regularly monitored to ensure that mismatch is maintained within established limits.

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

The Bank's DCR is limited as bank mainly depends on its equity to fund assets. In case DCR arises in some situation the Bank will forego its fee based on executive management decision and on case to case basis.

#### 4.7 Liquidity risk

##### 4.7.1 Introduction

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The main action to manage the Group's liquidity is through the adherence to limits on liquidity mismatches. These include the limits of the cumulative excess of maturing liabilities over assets in the short-term and limits on dependence on short-dated funds.

Treasury department is overall responsible for ensuring that the limits enacted are adhered to, on a day-to-day basis and managing excess liquidity of the Group through short term placements and investments. Treasury maintains a constant communication with the banks. The Treasury provides a monthly report to the ALCO regarding the market conditions and the volatilities of the asset prices and as such the exogenous liquidity risk the Group is exposed to.

##### 4.7.2 Sources of Liquidity Risk

Broadly, sources of liquidity risk can be listed as:

**Funding Risk** - Inability to replace net outflows due to unanticipated withdrawal of capital or deposits;

**Call Risk** - Crystallization of a contingent liability; and

**Event Risk** - Rating downgrades or other negative news leading to a loss of market confidence in the Bank.

Liquidity risk may also arise if certain inter-bank funding lines are withdrawn or assets do not realize cash as expected and when anticipated.

##### 4.7.3 Liquidity Risk Strategy

The Board is overall responsible for approving and reviewing (at least annually), the liquidity risk strategy and significant amendments to the liquidity risk policies. The Bank's senior management is responsible for implementing the liquidity risk strategy to identify, measure, monitor and control the risks faced by the Bank.

The Bank monitors the liquidity positions by comparing maturing assets and liabilities in different time buckets.

To mitigate the liquidity risk, the Group works with diversified funding sources, manages its assets with liquidity in mind and closely monitors periodic cash forecasts which take into account the Group's maturity profile.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 4. RISK MANAGEMENT (CONTINUED)

#### 4.7 Liquidity risk (Continued)

##### 4.7.4 Liquidity Risk Measurement Tools

The Bank has developed risk management policies and procedures including liquidity risk management framework. The Bank will use a combination of techniques for measurement of its liquidity risk. These would include Liquidity Gap Analysis and monitoring of liquidity ratios.

Table - 16. Liquidity ratios (PD-1.3.37)

The following table summarizes the liquidity ratios as of:

	31 December 2017
Liquid assets to total assets	22.50%
Short term assets to short term liabilities	102.05%

Formula is as follows:

Liquid Assets to total assets = (Cash and bank balances + Quoted sukuks non-trading at market value + Quoted sukuks held for trading)/total assets

Short term assets to short term liabilities = Assets with up to one year maturity/liabilities with up to one year maturity

Table - 17. Quantitative indicators of financial performance and position (PD-1.3.9)

	December 2017	December 2016	December 2015	December 2014	December 2013
Return on average total equity (ROAE)	0.41%	-17.50%	-4.62%	-4.75%	0.01%
Return on average total assets (ROAA)	0.27%	-10.88%	-3.14%	-3.90%	0.01%
Total operating cost to Income ratio	83.20%	64.38%	60.14%	96.08%	74.29%

Formula is as follows:

ROAE = Net Income (Loss) / Average Total Equity

ROAA= Net profit (Loss) / Average Total Assets

Operating cost= Total expenses excluding fair value changes and impairment allowances.

#### 4.7.5 Bank's Financial Performance (PD-1.3.9 (a))

Ibdar reported total revenues of USD 17.1 million for the year, a decrease of 12% from USD 19.3 million in 2016. Profits before fair value changes and impairment allowances decreased to USD 2.9 million compared to USD 6.9 million in 2016. The net profit for the year was USD 1 million compared to a net loss of USD 47.7 million in 2016. Impairment and fair value changes for 2017 amounted to USD 2 million compared to USD 54.6 million in 2016. The total asset base decreased by 5% reaching USD 366.7 million by year end. The decrease in the total asset base can be explained mainly due to sale of assets acquired for leasing.

### 5. LEGAL CONTINGENCIES

There are no legal cases outstanding as of 31 December 2017.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY

The Bank is committed to adopting the best international standards and global leading practices in corporate governance. The Bank has established a strong corporate governance framework that is designed to protect the interests of all stakeholders, ensure compliance with regulatory requirements, and enhance organisational efficiency.

The Bank has established a concrete organisational structure that clearly segregates functions and responsibilities, and reflects a division of roles and responsibilities of the Board of Directors and Management. Clear mandates exist for the Board, Chairman of the Board, Board Committees, Chief Executive Officer, the Management, and Senior Management Committees.

The Bank has only one class of equity shares and the shareholders are from the following nationalities (PD-1.3.10(i)):

Country	Percentage
1- State of Kuwait	50.52%
2- Kingdom of Bahrain	23.44%
3- Kingdom of Saudi Arabia	15.06%
4- Qatar	4.71%
5- United Arab Emirates	4.00%
6- Oman	2.03%
7- Jordan	0.13%
8- Yemen	0.05%
9- Philippines	0.02%
10- Sri Lanka	0.01%
11- Canada	0.01%
12- United Kingdom	0.01%
13- India	0.01%

The distribution of ownership of shares by size of shareholder is provided below (PD-1.3.10(I)):

Size of Ownership	No. of Shareholders
More than 10%	1
5 - 10 %	1
1 - 5 %	18
Less than 1 %	217
	<b>237</b>

#### 6.1 Board Members' Profile

The primary responsibility of the Board is to provide effective governance over the Bank's affairs and promote and achieve sustainable performance that has long-term growth potential for the benefit of its shareholders. The Board also has the duty of balancing interest of all its stakeholders, including its clientele, business partners, correspondents, employees, suppliers and local communities, all the time maintaining standards of transparency and accountability.

In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the Bank's best interest. In discharging this obligation, they may rely on the professional integrity of the Bank's Senior Executives, as well as its external advisors and auditors. The Board of directors members are:

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.1 Board Members' Profile (Continued)

Table - 18. Corporate Governance and Transparency – Board Members' Profile (PD-1.3.10(b,c,p,q))

Ibdar's Board of Directors consists of 10 members as of December 31, 2017.

The following table summarizes the information about the profession, business title, experience in years, start date and the qualifications of the current Board members;

Name of Board Member	Profession	Business Title	Executive / Non Executive Independent / Non Independent	Experience in years	Start date & term	Qualification
Tareq Sadeq	Financial Consultant	Managing Director - Keystone Consulting Inc WLL, Board member in Bahrain International Golf Course Company BSC, Board member of Al Zayani Investments BSC and Board member of Ahli United Bank - Kuwait	Independent	Over 38	3 years from 28 April 2016	Chartered Accountant - The Institute of Chartered Accountants in England and Wales
Abdulkarim Bucheery	Banker	Board Member of Bahrain Credit Facilities Co. (BCFC) and Chairman of Bahrain Bourse	Independent	Over 41	3 years from 28 April 2016	BSc - Economic Sciences from Aleppo University in Syria
Abdulaziz Al Afaleq	Mechanical Engineer	Partner, Board Member and Group CEO - Al-Kifah Holding Company	Independent	Over 16	3 years from 28 April 2016	EMBA - King Fahad University of Petroleum and Minerals. Bachelor degree in Mechanical Engineering.
Dr. Ahmed Al Balooshi *	Certified Public Accountant	CEO - Smarteam Consultancy and Board member of Bahrain Telecommunication Company (Batelco)	Independent	Over 31	3 years from 28 April 2016	PhD in Accounting from the University of Surry, UK and is a Certified Public Accountant (CPA), USA, and holds an MBA in Finance and a BSc in Accounting from the University of Bahrain.
Ebrahim Al Jassmi	Banker	Board member of Bahrain Islamic Bank and Takaful International Company	Independent	Over 36	3 years from 28 April 2016	B.S degree in Economics from the University of Kuwait and an MBA from the University of Bahrain.
Hamad Al Sejari	Banker	Assistant Vice President of KFH Capital Investment Company	Executive	Over 13	3 years from 28 April 2016	Bachelors in Civil Engineering with a minor in Business Administration from Old Dominion University, USA.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.1 Board Members' Profile (Continued)

Table - 18. Corporate Governance and Transparency – Board Members' Profile (PD-1.3.10(b,c,p,q) (Continued)

Name of Board Member	Profession	Business Title	Executive / Non Executive Independent / Non Independent	Experience in years	Start date & term	Qualification
Jamal Abdulla Al Saleem	Banker	Board member of Kuwait Investment Company, Executive Vice President in Privatization Holding Company - Kuwait and Vice Chairman of Kingdom Electricity Company - Jordan	Non-Executive	Over 28	3 years from 28 April 2016	Bachelors degree in Accounting from University of Kuwait, and an MSc degree in Accounting achieved with highest honors from Oklahoma City University, USA.heastern University
Jassem Al Yaseen	Banker	Executive Manager of the Treasury Sales Desk at Kuwait Finance House	Executive	Over 27	3 years from 28 April 2016	Bachelor's Degree in Industrial Engineering from the University of Miami, USA.
Khalid Al Maarafi	Banker	Executive Manager and Head of the Retail Banking Group at Kuwait Finance House-Bahrain, Chairman of Al Enma'a House for Real Estate and Board member of Family Bank and Baytik Industrial Investment Company	Executive	Over 34	3 years from 28 April 2016	Bachelor's in Accounting from the University of Bahrain, and is a Certified Public Accountant (CPA).
Mohamed Noorudin	Banker	Chairman of Newbury Investments W.L.L. - Bahrain, board member at Tadamun Capital - Bahrain and a board member at Itqan Capital - Jeddah	Independent	Over 31	3 years from 28 April 2016	Bachelors in Business Adminsitration from University of Bahrain
Dr. Mohamed Kameshki **	Business Consultant	Chairman of Mawteni Trading Company W.L.L., Vice chairman of the board of Saleh Abdulla Kameshki & Sons B.S.C. and board member of Aluminum Bahrain (ALBA).	Independent	Over 25	2 years from 11 May 2017	B.Sc. (Honours) in Engineering from Staffordshire University, M.Sc. In Management Science & Operational Research from Warwick University Business School and a Ph.D. in Business Management (New Product Development) from Loughborough University Business School.

\* Dr. Ahmed Al Balooshi resigned from the board effective [11 May 2017].

\*\* Dr. Mohamed Kameshki was appointed effective [11 May 2017].

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.1 Board Members' Profile (Continued)

A special meeting was held between 4 Board Members on 16 November 2017 to discuss certain operational matters in relation to the Bank which does not constitute a Formal Board of Directors Meeting The following table summarizes the information about Board of Directors meeting dates and attendance of directors at each meeting;

Table - 19. Corporate Governance and Transparency - Board of Directors meetings in 2017 (PD-1.3.10(t and u))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
27-Feb-17	Tareq Sadeq (Chairman) Abdulkarim Bucheery (Vice Chairman) Abdulaziz Al Afaleq Hamad Al Sejari Mohamed Nooruddin Jassem Al Yaseen Khalid Al Maarafi Ebrahim Al Jassmi Dr. Ahmed Al-Balooshi * Jamal Al Saleem	NA	NA
30-Apr-17	Tareq Sadeq (Chairman) Abdulkarim Bucheery (Vice Chairman) Abdulaziz Al Afaleq Hamad Al Sejari Mohamed Nooruddin Jassem Al Yaseen Khalid Al Maarafi Ebrahim Al Jassmi Jamal Al Saleem	NA	Dr. Ahmed Al-Balooshi *
18-May-17	Tareq Sadeq (Chairman) Abdulkarim Bucheery (Vice Chairman) Hamad Al Sejari Mohamed Nooruddin Dr. Mohamed Kameshki Abdulaziz Al Afaleq Jassem Al Yaseen Ebrahim Al Jassmi Khalid Al Maarafi	NA	Jamal Al Saleem
6-Nov-17	Tareq Sadeq (Chairman) Abdulkarim Bucheery (Vice Chairman) Hamad Al Sejari Mohamed Nooruddin Dr. Mohamed Kameshki Abdulaziz Al Afaleq Jassem Al Yaseen Ebrahim Al Jassmi Khalid Al Maarafi Jamal Al Saleem	NA	NA
14-Dec-17	Tareq Sadeq (Chairman) Abdulkarim Bucheery (Vice Chairman) Hamad Al Sejari Mohamed Nooruddin Dr. Mohamed Kameshki Abdulaziz Al Afaleq Jassem Al Yaseen Ebrahim Al Jassmi Khalid Al Maarafi Jamal Al Saleem	NA	NA

\* Dr. Ahmed Al Balooshi resigned from the board effective [11 May 2017].

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For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.2 Changes in Board Structure

The following table presents the directorships held by the directors in other boards:

Table - 20. Information on the directorships held by the directors on other boards

Name of Board Member	Directorship in other companies - based outside Bahrain	Directorship in other companies - based in Bahrain
Tareq Sadeq	Ahli United Bank, Kuwait	Keystone Consulting Inc WLL Al Zayani Investments - Bahrain Bahrain International Golf Course Company
Abdulkarim Bucheery	-	Bahrain Credit Facilities Co. (BCFC) Bahrain Bourse
Abdulaziz Al Afaleq	Al-Kifah Holding Company Saudi Arabia	-
Dr. Al Ahmed Al Balooshi *	-	Bahrain Telecommunications Company (Batelco)
Ebrahim Al Jassmi	-	Bahrain Islamic Bank Takaful International company
Hamad Al Sejari	-	-
Jamal Al Saleem	Kuwait Investment Company, Kuwait Kingdom Electricity Company, Jordan Privatization Holding Company, Kuwait	-
Jasem Al Yaseen	-	-
Khalid Al Maarafi	-	Al Enma House for Real Estate Family Bank Baytik Industrial Investment Company
Mohamed Nooruddin	Itqan Capital - Saudi Arabia	Newbury Investments Tadhamon Capital
Dr. Mohamed Kameshki	-	Mawteni Trading Company W.L.L. Saleh Abdulla Kameshki & Sons B.S.C. Aluminum Bahrain (ALBA)

\* Dr. Ahmed Al Balooshi resigned from the board effective [11 May 2017].

#### 6.2.1 Auditors' appointment

During the year, the shareholders at the AGM reappointed KPMG Fakhro as the external auditors of the bank.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.3 Board Committees

The following tables summarise the information about Board Committee meeting dates and attendance of directors at each meeting;

**Table - 21. Corporate Governance and Transparency – Audit, Risk & Compliance Committee meetings in 2017 (PD-1.3.10(w))**

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
14-Feb-17	Dr. Ahmed Al-Balooshi * (Chairman) Abdulaziz Al Afaleq Khalid Al Maarafi	NA	NA
26-Feb-17	Dr. Ahmed Al-Balooshi * (Chairman) Abdulaziz Al Afaleq Khalid Al Maarafi	NA	NA
20-Apr-17	Abdulaziz Al Afaleq Khalid Al Maarafi	NA	Dr. Ahmed Al-Balooshi *
27-Jul-17	Dr. Mohamed Kameshki (Chairman) Abdulaziz Al Afaleq Khalid Al Maarafi	NA	NA
30-Oct-17	Dr. Mohamed Kameshki (Chairman) Abdulaziz Al Afaleq Khalid Al Maarafi	NA	NA
1-Nov-17	Dr. Mohamed Kameshki (Chairman) Abdulaziz Al Afaleq Khalid Al Maarafi	NA	NA

\* Dr. Ahmed Al Balooshi resigned from the board effective [11 May 2017].

**Table - 22. Corporate Governance and Transparency – Executive Committee meetings in 2017 (PD-1.3.10(w))**

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
9-Feb-17	Abdulkarim Bucheery (Chairman) Hamad Al Sejari Jassem Al Yaseen Ebrahim Al Jassmi	NA	NA
17-May-17	Abdulkarim Bucheery (Chairman) Hamad Al Sejari Jassem Al Yaseen Ebrahim Al Jassmi	NA	NA
10-Aug-17	Abdulkarim Bucheery (Chairman) Hamad Al Sejari Jassem Al Yaseen Ebrahim Al Jassmi	NA	NA
5-Nov-17	Abdulkarim Bucheery (Chairman) Hamad Al Sejari Jassem Al Yaseen Ebrahim Al Jassmi	NA	NA
26-Dec-17	Abdulkarim Bucheery (Chairman) Hamad Al Sejari Jassem Al Yaseen Ebrahim Al Jassmi	NA	NA

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.3 Board Committees (Continued)

Table - 23. Corporate Governance and Transparency – Nomination, Remuneration and Governance Committee meetings in 2017 (PD-1.3.10(w))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
10-Jan-17	Tareq Sadeq (Chairman) Mohamed Nooruddin Jamal Al Saleem	NA	NA
17-Jan-17	Tareq Sadeq (Chairman) Mohamed Nooruddin Jamal Al Saleem	NA	NA
23-Feb-17	Tareq Sadeq (Chairman) Jamal Al Saleem	Mohamed Nooruddin	NA
6-Jun-17	Tareq Sadeq (Chairman) Mohamed Nooruddin Jamal Al Saleem	NA	NA
12-Jun-17	Tareq Sadeq (Chairman) Mohamed Nooruddin Jamal Al Saleem	NA	NA
13-Jun-17	Tareq Sadeq (Chairman) Mohamed Nooruddin Jamal Al Saleem	NA	NA
12-Jul-17	Tareq Sadeq (Chairman) Mohamed Nooruddin	NA	Jamal Al Saleem
31-Oct-17	Tareq Sadeq (Chairman) Mohamed Nooruddin Jamal Al Saleem	NA	NA
7-Nov-17	Tareq Sadeq (Chairman) Mohamed Nooruddin Jamal Al Saleem	NA	NA
21-Dec-17	Tareq Sadeq (Chairman) Mohamed Nooruddin Jamal Al Saleem	NA	NA

#### 6.4 Changes in the Corporate Governance Structures (PD-1.3.10(g))

a) Dr. Ahmed Al Balooshi resigned from the board effective [11 May 2017].

b) Dr. Mohamed Kameshki was appointed as a board member and a member in the ARCC effective [11 May 2017].

c) The organizational structure of the bank has changed during 2017 compared to 31st December 2016 as shown in Figure 1, item 2 Risk Management Structure

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.5 Remuneration Policy and Aggregate Remuneration Paid to Senior Management and Board (PD-1.3.10(d, ii, jj and kk))

The Bank's remuneration policy for Senior Management is to provide competitive remuneration structure to attract and retain highly skilled personnel.

Aggregate remuneration paid to senior management during 2017 was USD 2,486 thousand (2016 USD 1,557 thousand). This includes salaries, allowances and other benefits paid for the year ended 31 December 2017. Bonuses for the year of 2017 are not included in the calculation of aggregate remuneration as the bonus allocation has not been finalized yet.

The Bank's remuneration policy for Board Members is to appropriately compensate and remunerate board members for their active participation in board meetings. Based on this policy the Board of Directors remuneration was structured to comprise the following:

- (a) Annual Contractual Remuneration
- (b) Attendance fees for members attending Board and sub-committee meetings
- (c) Daily Allowance
- (d) First class air tickets

Aggregate amount for the Sharia'a Advisory Committee during 2017 was USD 98,000 (2016: USD 90,300) out of which total remuneration for 2017 of USD 80,000 (2016: USD 80,000).

#### 6.6 A. Ownership of Shares by government (PD-1.3.10(m))

Name of Government Authority	Country	No. of Shares	%
Social Insurance Organization	Kingdom of Bahrain	4,693,951	1.565%
The Public Authority for Minor Affairs	State of Kuwait	1,642,877	0.548%
Awqaf Public Foundation	State of Kuwait	1,642,877	0.548%
Directorate of Minors Affairs	Kingdom of Bahrain	259,880	0.087%

#### B. Directors' and Senior Managers' trading of the bank's shares during the year (PD-6.1.1 (c))

Not applicable as the shares are not listed.

#### 6.7 Ownership of Shares by Directors / Senior Managers (PD-1.3.10(k))

The current Board in their individual capacity or Senior Management do not have any shares in the Bank.

#### 6.8 Type of Material Transactions that require Board approval (PD-1.3.10(o))

The following types of material transactions require Board approval if suggested by the approved policies:

- (a) Conclude loan agreements with certain limit;
- (b) Sell the company's assets;
- (c) Mortgage the Company's properties;
- (d) Grant guarantees to third parties;
- (e) Discharge the Company's debts; and
- (f) Engage in any other acts which may be integral to the company's objects as set out in the Memorandum of Association.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.9 Induction, Education and Orientation of New Directors (PD-1.3.10(r))

All new Directors participate in an orientation exercise that is administered by the Directors and members of the Management at Ibdar. This orientation includes presentations by the Chairman and senior management to familiarize new Directors with Ibdar's strategic plans, significant financial, accounting and risk management issues, compliance programs, the Code of Conduct, its principal officers, and internal and independent auditors.

In addition, the orientation includes visits to Ibdar headquarters and, to the extent practical, Ibdar's significant investments. It is emphasized that Directors stay up-to date in relation to matters relevant to the Bank, the industry and the particular areas of expertise for which they have been invited on to the BOD in the first place. In particular the induction/orientation process will aim for a Director to have:

- (a) An appropriate level of knowledge of the industry Ibdar operates in.
- (b) A clear understanding of Ibdar's business operations.
- (c) A clear understanding of Ibdar's financial circumstances.
- (d) A clear understanding of Ibdar's strategy and direction.
- (e) A high level knowledge of the business risks that may affect its success.
- (f) Access to relevant background information on key employees and the other members of the BOD.
- (g) In addition, new Directors are provided an Induction Package

The process of director induction is critical to having the new directors effectively and efficiently contributing to the Board of Directors. As part of this process, specifically, the new director shall:

- (a) Be welcomed formally by the Chairman of the Board, who shall brief him generally on the Bank, the Board, the other directors, and the culture and operation of the Board.
- (b) Meet with the Chief Executive Officer onsite at the Bank office to discuss the Bank strategy and plan and be introduced to key management staff.
- (c) Be briefed on the history and legacy of the Bank and its key shareholders, clients, and partners by the Chief Executive Officer or other member of Senior Management.
- (d) Be briefed by the Board Secretary on the general operations of the Board.
- (e) Be provided all of the pertinent documentation, including but not limited to:
  - i. Applicable laws and regulations, including the Commercial Companies Law, the CBB Rulebook and regulations
  - ii. The Memorandum and Articles of Association
  - iii. The Corporate Governance Manual
  - iv. Organization Chart
  - v. Business Plan
  - vi. Schedule for Upcoming Board and Committee Meetings
  - vii. The Board Minutes for the last 12 months (including the audio recording of the last meeting, if available)
  - viii. The Board Packs for the last 12 months
  - ix. The Board Committee Minutes for the respective committee he will be appointed to for the last 12 months (including the audio recording of the last meeting, if available)
  - x. The Annual Reports for the last 2 years
  - xi. The Quarterly Financials for the last 12 months
- (f) Be provided any other documentation on the Bank, its products, services, market or competition, upon his request.
- (g) Be afforded the opportunity to meet with any staff, consultants, or advisors, including the external auditor, upon his request.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.10 Executive Members' Profile

Delegated by the Board with the authority for managing the Bank's operations, the Executive Management Team of the Bank are responsible for implementing decisions, policies, procedures, and strategies approved by the Board of Directors.

**Table - 24. Corporate Governance and Transparency - Executive Members' Profile (PD-1.3.10(b))**

The Bank does not permit the recruitment of family members of an Employee as per the family recruitment policies, however such recruitment is permissible in exceptional circumstances with approval from Chairman / CEO required based on degree of relationship with the family member. The following table summarises the information about the profession, business title, experience in years and the qualifications of each Executive member;

Name of Executive Member	Department	Business Title	Experience in year	Qualification
Mr. Ayman Sejiny (1)	Chief Executive Officer	CEO	Over 25	BA in Finance from Eastern Michigan University, United States.
Mr. Ahmed Mostafa (2)	Chief Financial Officer	CFO	Over 17	Bachelors in Commerce majoring in Accounting from Helwan University in Egypt and is a Certified Public Accountant (CPA).
Mr. Ikbal Daredia	Capital Markets, Treasury & Asset Management	Senior Executive Director	Over 35	Associate of the Chartered Institute of Bankers (ACIB) and holds Financial Planning Certificate from London's Chartered Insurance Institute.
Mr. Hussain Jamsheer	Investor Relations	Executive Director	Over 22	Masters in Finance from Sheffield Halam University in the UK, a Diploma in Treasury & Capital Markets, and an ACCA Certified Diploma in Accounting & Finance.
Mr. Yasser Abbady	Investor Relations - Advisory	Executive Director	Over 20	CFA charter holder
Mr. Khalid Javaid	Legal & Board Secretary	Executive Director	Over 20	Diploma in UK Legal Practice, a BSc (Hons) in Quantitative Economics from the City of London University, and a Postgraduate Diploma in Law from the University of Thames Valley.
Ms. Aysha Aljalahma	Compliance & MLRO	Director	Over 13	Bachelors of Science in Accounting from the University of Bahrain and a Master of Science in International Finance from the University of Westminster, UK.
Mr. Farrukh Zareef	Risk Management	Director	Over 19	Associate Member of Institute of Chartered Accountant of Pakistan (ICAP)
Mr. Abdulla Al-Khaldy	Shari'ah Supervision & Advisory	Director	Over 26	Bachelor Degree in Chemical Engineering, - University of Bahrain, Advanced Diploma in Islamic Baking - BIBF, Advanced Diploma in Islamic Commercial Jurisprudence, Jordan & BIBF, High Diploma in Education - University of Bahrain, and High Diploma in Distance Teaching & Training- Arabian Gulf University, Bahrain. He is also Certified Islamic Professional Accountant (CIPA) - AAOIFI, Certified Shari'ah Advisor and Auditor (CSAA)- AAOIFI, Shari'ah Reviewer (CBB Waqf Program), and Certified Anti-Money Laundering & Compliance Officer , FINRA , ICMA & University of Reading. Prior to joining Ibdar, Abdullah served at Gulf Finance House and the University of Bahrain
Mr. Bassam Awdi	Internal Audit	Director	Over 19	Executive Master in Business Administration and he is a Certified Public Accountant
Mr. Bassam Kameshki	Real Estate	Director	Over 14	BSc degree in Civil Engineering from University of Bahrain, Certified Development Manager from George Washington University and MBA with Merit from University of Strathclyde, Scotland.
Ms. Hella Fakhro	Aviation & Alternative Investments	Director	Over 12	Bachelor's degree from Brown University and a Master's degree from New York University

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.10 Executive Members' Profile (Continued)

Table - 24. Corporate Governance and Transparency - Executive Members' Profile (PD-1.3.10(b)) (Continued)

Name of Executive Member	Department	Business Title	Experience in year	Qualification
Mr. Nader AlQassab	Post-Acquisition	Director	Over 18	Master of Business Administration from University of Strathclyde, Glasgow - Scotland. He is also a Chartered Fund and Asset Manager
Ms. Sama Al Alawi	Human Resources	Director	Over 26	Master of Science in Human Resources. Chartered Institute of Personnel and Development (Level 5). Six Sigma Certificate and Six Sigma Black Belt holder
Ms. Nada Kazerooni	Capital Markets, Treasury & Asset Management	Director	Over 16	MBA from Strathclyde University, Scotland, and a BSc in Civil Engineering from Northeastern University, Boston-USA.
Ms. Victoria McFarlane	Corporate Communications	Director	Over 21	Masters Degree in Leadership and Change Management from the York St. John University, UK.
Mr. Ahmed Al-Rayes (3)	Acting Chief Executive Officer / Chief Investment Officer	A/CEO / CIO	Over 17	BSc in Mechanical Engineering from the University of Bahrain and an MBA from University of Strathclyde in Glasgow, Scotland.
Mr. Janaka Mendis (4)	Chief Financial Officer	CFO	Over 22	MBA from TRIUM, jointly offered by NYU Stern business school, LSE and HEC Paris. He is also a fellow of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka.
Mr. Mohammed Kettani (5)	Private Equity	Executive Director	Over 19	Master of Science in Finance from George Washington University, USA
Mr. Ahmed Al Mohaisen (6)	Investor Relations	Executive Director	Over 12	Finance and Economics from King Fahad University of Petroleum & Minerals
Dr. Yousif Janahi (7)	Information Technology & Administration	Director	Over 29	Master degree in Computer Based Information Systems from University of Sunderland - UK
Mr. Hasan Juma (8)	Asset Management	Director	Over 13	BCs in Accounting from the University of Bahrain and is a Certified Public Accountant (CPA) from the American Institute of Certified Public Accountants (AICPA), New Hampshire, USA and a Certified Islamic Professional Accountant (CIPA) from AAOIFI.
Mr. Arshan Merchant (9)	Investment Administration	Director	Over 19	Executive Master in Business Administration and he is a Certified Public Accountant

(1) Mr. Ayman Sejiny was appointed as the Chief Executive Officer effective [16 April 2017]

(2) Mr. Ahmed Mustafa was appointed as the Chief Financial Officer effective [1 October 2017]

(3) Mr. Ahmed Al-Rayes resigned from the bank effective [20 January 2018]

(4) Mr. Janaka Mendis resigned from the bank effective [30 September 2017]

(5) Mr. Mohammed Kettani resigned from the bank effective [25 February 2018]

(6) Mr. Ahmed Al Mohaisen resigned from the bank effective [23 February 2018]

(7) Mr. Yousif Janahi resigned from the bank effective [30 November 2017]

(8) Mr. Hasan Juma resigned from the bank effective [23 January 2018]

(9) Mr. Arshan Merchant resigned from the bank effective [15 July 2017]

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.11 Bank's Performance Linked Incentive Structure (PD-1.3.10(d))

The remuneration & incentive structure of the Board Members and Shari'ah Members is discussed at the Board level. Remuneration of Board Members is approved in the Annual General Meeting ("AGM"). Bonuses are based on Bank's performance, division or department performance and individual staff performance. The board approves all performance bonus schemes for staff.

#### 6.12 Related Party Transactions (PD-1.3.10(f))

Related party transactions are governed by the Group corporate governance policy. All related party transactions were concluded at arm's length.

Where the Bank proposes to enter into a related party transaction the following procedures apply:

1. The relevant responsible officer involved in the transaction makes appropriate disclosure to the Compliance Officer of the bank. The Compliance Officer will review the transaction and send his/her comments to the Investment, Credit & Risk Committee about the proposed transaction. This disclosure should include the following:
  - (a) Details of the proposed transaction;
  - (b) Proposed transaction parties and how they are related;
  - (c) How arm's length may be evidenced
2. The committee will consider the information provided in order to determine whether and how to proceed with the proposed transaction. The committee may confer with risk management and legal department or may take external legal advice, in reaching this determination.
3. The Committee shall review the material facts of the transactions that require the Committee's approval and either approve or disapprove of the entry into the related party transaction.

For related party transaction and balances, please refer note 23 of the financial statements. No conflicts were identified and reported during the year.

#### 6.13 Assessment of Board of Directors Effectiveness & Contribution (PD-1.3.10(aa))

The Board and the management of the Bank are committed to the highest standards of corporate governance and risk management, therefore the Bank has developed a methodology which incorporates a process to self-assess the performance of the Board by the Board members on ongoing basis. This methodology and performance criteria is developed and recommended in line with the Board approved corporate governance policy and terms of reference. Self assessment shall help the board to establish clear expectations and goals to measure against these standards. The areas covered by the self assessment process are:

- Objective and strategy
- Selecting and retaining competent management
- Monitoring and assessing operations
- Efficient operations
- General assessment

The Board assessment for 2016 were presented and approved in the Board meeting dated May 11, 2017. The Bank is in the process of Board assessment for 2017.

#### 6.14 Review of internal control processes and procedures (PD-1.3.10(y))

Internal control processes and procedures are regularly reviewed by the Bank's Internal Auditor in line with the internal audit plan approved by the Board's Audit Committee.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.15 Governance arrangements, systems and controls employed by the bank to ensure Shari'a compliance (PD-1.3.10(ff))

Shari'a compliance department conducts review of all business financing and investment proposals together with audit of all executed transactions of Ibdar Bank and its affiliates to confirm compliance with Shari'a rules and principles, and also with specific rulings and guidelines issued by the Shari'a Supervisory Board.

The Shari'a review and audit are conducted internally by the Shari'a Compliance Department, which includes examining all transactions without exception, with all its the relevant documentation and execution procedures adopted by Ibdar Bank.

The Shari'a review and audit are planned and performed after obtaining all the information and explanations which are considered necessary to provide sufficient evidence and give reasonable assurance that Ibdar Bank and its affiliates are in compliance with Islamic Shari'a rules and principles.

The findings are reported to the Shari'a Supervisory Board during the periodic meeting, which is held on quarterly basis or at any other time as the case may require. The Shari'a Supervisory Board reviews the review and audit reports of the Shari'a Compliance Department and provides the necessary recommendations in this regard, if needed, and issues the official opinion by means of the Shari'a Compliance Certificate after each meeting.

#### 6.16 Handling of Non Shari'a compliance earnings and expenditures (PD-1.3.10(gg))

Any amount that has been identified as being non Shari'a compliant are fully reimbursed to a charity organization or a Bahraini Non-Profit organization. Income from non Islamic sources amounting to USD 14 thousand was given as charity.

#### 6.17 Information on mediation, advise and complaint procedures at the bank (PD-1.3.10(dd))

The investors may use the Bank's website for logging a query or a complaint, which is managed by the Corporate Communications Department ("CCD") through the info@ibdarbank.com or complaint@ibdarbank.com in the "Contact Us" page on the website.

After receiving a query or a complaint through the email address associated with the "Contact Us" page, CCD/Compliance channel the query or the complaint to the concerned department to follow up with a response. The investor's query is addressed accordingly by the appropriate department or person who was asked to handle the issue. An acknowledgement goes to the customer within 5 working days and a full reply within a maximum of 4 weeks.

#### 6.18 Election system of directors and any termination arrangements (PD-1.3.10(s))

As per the Memorandum and Articles of Association of the Bank, the Board shall be elected by the shareholders for a period of three years. The Board shall meet and elect its Chairman and Vice Chairman for a period equivalent to the term of the Board. The termination arrangements of the Board of Directors are as stated in the Memorandum of Articles of Association (Articles 24, 25 & 27).

Article 25-Appointment of Expert Directors: Subject to the approval of the Central Bank of Bahrain, the Ordinary General Meeting may appoint a number of persons with expertise to be members of the Board of Directors who are not founders or shareholders in the Company in such number and with powers as the Board of Directors may deem necessary in order to serve the interest of the Company and provide the necessary technical, administrative and scientific skills and practical experience for the Company and provide the necessary technical, administrative and scientific skills and practical experience for the Company and subject to satisfaction by such members of the requirements of Ministerial Order No.10 for the year 2002 with respect to qualifying conditions required to be met by members of the Board of Directors who are not founders or shareholders, and subject also to the number determined for members of the Board of Directors according to provisions of these Articles of Association.

Article 26-Termination of Membership of Directors: A director's membership of the Board of Directors terminates in the following events:

1. If he was appointed or elected contrary to the provisions of Law of Articles of Association.
2. If he mis-uses his position as director in carrying on business that is competitive to that of the Company or if he causes actual damage to it.
3. If he fails to attend three consecutive meetings of the Board without lawful excuse notified in writing to the Board, and the Board shall resolve on this matter as it may deem fit.
4. If he resigns or withdraws from his office, provided the foregoing shall be done in an opportune time, otherwise he shall be liable to pay damages to the Company.
5. If he occupies any other office in the Company for which he would receive remuneration other than that which the Board of Directors may decide from time to time to remunerate its occupier because of the executive nature of his duties.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.18 Election system of directors and any termination arrangements (PD-1.3.10(s)) (Continued)

##### Article 27-Removal of Directors:

1. The General Meeting may terminate the membership of all or some of the members of the board Of Directors. Requisition for termination shall be presented to the Board by shareholders representing at least 10% of the capital. The Board shall forward such requisition to the General Meeting within a maximum period of one month from the date of its submission; otherwise the Ministry of Industry and Commerce may issue the notice for the Meeting. The General Meeting may not consider this requisition with respect to the said termination unless the said requisition is on the agenda. Save when serious developments are revealed during the meeting requiring such termination
2. A member of the Board of Directors may resign provided that such resignation is at a suitable time, or else, he may be liable to pay compensation to the Company.

#### 6.19 Bank's Communication Strategy (PD-1.3.10(h and cc))

The CCD is responsible for preparing marketing materials in liaison with other Business Departments, which are used to communicate new product information and inform the investors of the Bank's activities. The various channels of communication may include corporate publications, website, direct mailers, electronic mail and local & regional media (through press releases). All marketing materials & corporate documents are approved by Senior Management prior to disclosing to the public.

The Bank adopted an open policy for communication where it uses all available suitable channels to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of the media for the purposes of providing information on the Bank's progress.

The bank provides investment updates to its client on a semi-annual basis.

Furthermore, the Bank provides information on all events that merit announcement, either on its website or through other communication channels. The Bank's annual report and previous years financial statements are also published on the website, as well as the Corporate Governance reports. The Bank's quarterly results are also published in both Arabic and English newspapers, and are posted on the Bank's website.

The Board attaches a high degree of importance to continuous communication with shareholders, especially direct dialogue with them at the Bank's annual general meetings. Shareholders are therefore encouraged to actively participate at such meetings.

#### 6.20 Bank's Code of Ethical Business Conduct and Conflict of Interest (PD-1.3.10(v) & PD-6.1.1 (j))

The Board establishes corporate values for itself, senior management, and employees. These values have been communicated throughout the Bank, so that the Board and senior management and staff understand their accountabilities to the various stakeholders and fulfill their fiduciary responsibilities to them.

Bank's ethics dictate that a Board Member should:

1. Not enter competition with the Bank;
2. Not demand or accept substantial gifts for himself or his associates;
3. Not take advantage of business opportunities to which the Bank is entitled for himself or his associates;
4. Report to the Board any conflict of interest in their activities with, and commitments to other organizations. In any case, all Board Members declare in writing all of their other interest in other enterprises or activities (whether as a shareholder, manager, or other form of participation) to the Board (or the Audit, risk and compliance Committee / Corporate Officer) on an annual basis;
5. Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advise, or which involves a subject or proposed transaction where a conflict of interest exists; and
6. Ensure, collectively with the Board, that systems are in place to ensure that necessary client confidentiality is maintained and the privacy or the organization itself is not violated, and that clients' rights and assets are properly safeguarded.

During 2017, there has not been any cases of conflict of interest in the Bank.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

#### 6.21 Monitoring Compliance to and Enforcement of Code of Conduct

The matters covered in the Code of Conduct are of the utmost importance to the Bank, its stakeholders and its business partners and are essential to the Bank's ability to conduct its business in accordance with its stated values. The Bank clearly communicates to all of its employees that they are expected to adhere to these rules in carrying out their duties for the Bank.

The Board, through independent evaluators (i.e. Internal Auditor) and Senior Management, continuously monitor adherence to the set Code of Conduct and take appropriate action against any employee whose actions are found to violate these policies or any other policies of the Bank. Disciplinary actions may include immediate termination of employment or business relationship at the Bank's sole discretion. Employees are prohibited from participating in or concealing criminal activity or illegal behavior. Periodic reports and assessments of compliance to Code of Conduct will be presented to the board to report any incident of non compliance.

#### 6.22 Auditor's Fees and Non-Audit Services

The details of the audit fees charged and non-audit services provided by the Bank's 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 do not negatively impact the Bank's interest.

#### 6.23 Social Functions and Charitable contributions of the Bank

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

#### 6.24 Penalties or Fines by Central Bank of Bahrain

The bank did not pay any penalties to the Central Bank of Bahrain in 2017.

#### 6.25 Penalties charged to Customers for Default

No penalties were charged to customers with regards to defaults during 2017.

### 7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION

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

The Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework in 2014. The revised policy framework and incentive components was approved by the shareholders in the Annual General Meeting.

The key features of the proposed remuneration framework are summarised below.

#### 7.1 Remuneration Strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing rewards 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 quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. The Bank's reward package is comprised of the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus
4. Long Term Incentives

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

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

#### 7.1 Remuneration Strategy (CONTINUED)

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

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

#### 7.2 NRC Role and Focus

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

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

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

Table - 25. NRC Membership

NRGC Member Name	Appointment date	Number of meetings attended
Tareq Sadeq	28-Apr-16	10
Mohamed Nooruddin	28-Apr-16	10
Jamal al Saleem	28-Apr-16	9

The aggregate remuneration paid to NRC members during the year in the form of sitting fees amounted to USD 69,600 [2016: USD 74,400].

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

#### 7.3 External Consultants

The Bank's variable remuneration policy is administrated by external consultants.

#### 7.4 Scope of Application of the Remuneration Policy

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

#### 7.5 Board Remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 5% of the Bank's net profit after all required deductions as outlined in Article 188 of the Companies law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

#### 7.6 Variable Remuneration for Staff

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

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

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

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

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

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

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

#### 7.7 Remuneration of Control Functions

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

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

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

#### 7.8 Variable Compensation for Business Units

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

#### 7.9 Risk Assessment Framework

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

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

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

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

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

- (a) The cost and quantity of capital required to support the risks taken;
- (b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
- (c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

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

#### 7.10 Risk Adjustments

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

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

- There will be considerable contraction of the Bank's total variable remuneration.
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower
- Reduction in the value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.
- The NRCG, with the Board's approval, can rationalize and make the following discretionary decisions:
  - Increase/ reduce the ex-post adjustment
  - Consider additional deferrals or increase in the quantum of non-cash awards
  - Recovery through malus and clawback arrangements

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

#### 7.11 Malus and Claw Back Framework

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

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

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

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

#### 7.12 Components of Variable remuneration

Table - 26. Variable remuneration has following main components:

<b>Upfront cash</b>	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
<b>Deferred Cash</b>	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
<b>Upfront share awards</b>	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
<b>Deferred shares</b>	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years
<b>Other Non-Cash Awards</b>	Non-Cash Awards that link rewards to the risk and profitability of individual transactions or transaction portfolios including: <ul style="list-style-type: none"> <li>- Profit Share in Investments</li> <li>- Carried Interest</li> <li>- Co-Investment in Assets</li> </ul>

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

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

#### 7.13 Deferred Compensation

All staff earning in excess of BHD 100,000 are subject to the following rules of deferral:

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

Table - 27. Deferral Rules - Business Line Employees

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Clawback*
Upfront cash	40%	immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred Phantom Shares	10-50%	3 years	6 months	Yes	Yes
Other Non-Cash Awards	0-40%	Transaction linked	6 months	Yes	Yes

All other covered staff are subject to the following deferral rules:

Table - 28. Deferral Rules - Other Covered Staff

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

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

#### 7.14 Details of Remuneration Paid

Table - 29. Board of Directors

USD	2017	2016
Sitting Fees	138,568	115,199
Remuneration	500,000	550,000
Others	44,121	59,836

Board of Directors remuneration are subject to AGM and MOIC approval.

Table - 30. Employee Remuneration

USD'000	2017					
	Number of Staff	Variable Remuneration*		Fixed Remuneration		Total
		Cash	Others	Cash	Others	
Approved Persons:						
Business Lines	6	-	-	1,230	300	1,530
Control and Support	12	-	-	1,265	542	1,807
Other Material Risk Takers	12	-	-	1,066	457	1,523
Other staff	28	-	-	650	278	928
Total	58	-	-	4,211	1,577	5,788

\* Variable remuneration allocation has not been completed as of date of preparation of this document.

## DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK

For The Year Ended 31 December 2017

### 7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

Table - 30. Employee Remuneration (Continued)

USD'000	Number of Staff	2016			Fixed Remuneration Cash	Others	Total
		Variable Remuneration Cash	Others				
Approved Persons:							
Business Lines	4	142	158	836	108	1,244	
Control and Support	13	284	65	1,582	249	2,180	
Other Material Risk Takers	10	298	29	1,338	209	1,874	
Other staff	26	146	-	822	154	1,122	
Total	53		252	4,578	720	6,420	

Table - 31. Severance Pay

	2017	2016
Number of Staff	3	6
Severance Pay (USD)	196,384	234,033
Highest such award to a single person (USD)	107,323	85,659

Table - 32. Deferred awards

	2017			
	Cash	Shares Nos	Value	Total
Opening balance	70,360	1,270,894	1,013,664	1,084,024
Awarded during the period*	-	-	-	-
Profit accrued during the period on deferred cash	1,496	-	-	1,496
Paid out / released during the period	(28,818)	(72,216)	(57,600)	(86,418)
Valuation adjustments	-	-	946,956	946,956
Closing balance	43,038	1,198,678	1,903,020	1,946,058

\* Does not include any variable remuneration for 2017 as the allocation has not been finalized and approved yet.

	2016			
	Cash	Shares Nos	Value	Total
Opening balance	42,119	574,663	558,577	600,696
Awarded during the period	41,870	696,231	555,312	597,182
Profit accrued during the period on deferred cash	614	-	-	614
Paid out / released during the period	(14,244)	-	-	(14,244)
Valuation adjustments	-	-	(100,225)	(100,225)
Closing balance	70,360	1,270,894	1,013,664	1,084,024