مصرف السلام
AL SALAM BANK
Bahrain البحرين

Your stronger banking partner

2017 ANNUAL REPORT

For more than a decade, we at Al Salam Bank-Bahrain transcend the boundaries of possibilities and build new paradigms, offering dynamic and innovative Shari'a-compliant products and financial solutions tailored to meet our increasingly diverse clients in Retail Banking, Private Banking, Corporate Banking, Investment Banking and Treasury Services.

Cover image:
The Tree of Life (Shajarat-al-Hayat) stands strong, lusciously covered in green leaves in the heart of the Arabian Desert surrounded by kilometres of sand. Located 2 kilometres from Jebel Dukhan in the Kingdom of Bahrain, the 9.75m high Prosopis cineraria tree is approximated to be 400 years old.

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 of the Kingdom of Bahrain

Dynamic

Diversified

Differentiated

Contents

Vision

To become a regional force in the Islamic financial services industry by providing differentiated Shari'a compliant products to focused segments.

Mission

- Become a "one-stop-shop" for Islamic financial services.
- Create a strong onshore presence in select countries.
- Develop a premier brand image as an Islamic financial shaper.
- Achieve high returns for stakeholders commensurate with the risks undertaken.

Corporate Overview

Al Salam Bank-Bahrain B.S.C (ASBB) was established on 19 January 2006 in the Kingdom of Bahrain with paid-up capital of BD 120 million (US$ 318 million) and was the largest Initial Public Offering (IPO) in the Kingdom's history with subscriptions reaching over BD 2.7 billion (US$ 7 billion). The Bank commenced commercial operations on 17 April 2006. ASBB was listed in Bahrain Bourse on 27 April 2006 and subsequently on Dubai Financial Market (DFM) on 26 March 2008.

Following a resolution of ASBB's Extraordinary General Assembly meeting held on 4 May 2009, ASBB completed its merger with the Bahraini Saudi Bank (BSB) on 22nd of December 2011. On the 2nd of February 2014, Al Salam Bank-Bahrain and BMI Bank B.S.C (c) confirmed the conclusion of a business combinations between the two institutions after obtaining the approval of their shareholders at their respective extraordinary general assembly meetings by way of exchanging 11 ASBB shares for each BMI Bank share wherein ASBB acquired 58,533,357 BMI Bank shares of BD1 each and issued 643,866,927 ASBB shares of 100 fils each. As of the 30th of March 2014, both Banks updated their respective CRs to give effect to the share swap and consequently BMI Bank became a wholly owned subsidiary of ASBB.

ASBB, one of the pioneering Shari'a-compliant Banks in the Kingdom, offers its customers a comprehensive range of innovative and unique Shari'a-compliant financial products and services through its extended strong network of branches and ATMs utilizing the state-of-art technologies to meet various banking requirements. In addition to its Retail Banking services, the Bank also offers Corporate Banking, Private Banking, Investment Banking as well as Treasury Services. The Bank's high-caliber management team comprises of a highly qualified and internationally experienced professionals with proven expertise in key areas of banking, finance and related fields.

Al Salam Bank-Bahrain has been awarded with the "Critics' Choice award – The Best Islamic Retail Bank in Bahrain for 2017" by Cambridge IF Analytica – a UK-based Islamic finance intelligence specialized in providing strategic advice in the field of financial services and conduct professional academic researches for financial institutions. The Bank had received several awards in the past, including the winning of the "Best Villa Development" for the Martinique Villas by-the-sea in one of Malaysia's Penang Island's largest seafront residential developments, a project jointly owned by Al Salam Bank-Bahrain and two other strategic partners, comprised of 73 luxurious waterfront seaside villas in Malaysia as part of the inaugural at the South East Asia Property Awards in 2011 and had won the International Real Estate Financing Summit – Middle East (IREF ME 2009) "Award of Excellence for Outstanding Achievement in Islamic Retail Estate Product Innovation" for Milton Gate acquisition – the landmark building located in the financial district of the City of London in the close proximity of other prestigious financial institutions.

Key factors that contribute to the Bank's distinct market differentiation include:

- Strong paid-up capital base;
- Pre-eminent founding shareholders;
- High-calibre management team;
- State-of-the-art IT infrastructure;
- Innovative, tailor-made Shari'a-compliant product solutions;
- Universal business model covering deposits, financing and investment products and services;

ASBB is adopting internationally recognized standards and best practices in areas such as corporate governance, compliance and risk management, operating with the highest levels of integrity, transparency and trust.

Annual Highlights

Total Operating Income
(million)

2013	BD26 (USD 69)
2014	BD46 (USD 122)
2015	BD59 (USD 156)
2016	BD63 (USD 167)
2017	BD62 (USD 165)

Net Profit
(million)

2013	BD12 (USD 33)
2014	BD16 (USD 42)
2015	BD11 (USD 28)
2016	BD16 (USD 43)
2017	BD18 (USD 48)

Total Assets
(million)

2013	BD1,088 (USD 2,887)
2014	BD1,955 (USD 5,186)
2015	BD1,657 (USD 4,395)
2016	BD1,681 (USD 4,460)
2017	BD1,589 (USD 4,216)

Total Equity
(million)

2013	BD246 (USD 653)
2014	BD329 (USD 872)
2015	BD320 (USD 849)
2016	BD325 (USD 862)
2017	BD304 (USD 806)

Earnings per share (EPS)
(fils)

2013	8
2014	8
2015	6
2016	8
2017	9

Cost-to-Income Ratio
(percent)

2013	44%
2014	57%
2015	45%
2016	41%
2017	39%

Al Salam Bank-Bahrain B.S.C (ASBB) is an Islamic Retail Bank in the Kingdom of Bahrain and is licensed and regulated by the Central Bank of Bahrain.

Board of Directors

H.H. Shaikha Hessa bint Khalifa bin Hamad Al Khalifa

Chairperson

Chairperson of the Remuneration, Nomination and Corporate Governance Committee

Independent and non-executive

Director since: 18 April 2009
Term started: 24 February 2015
Experience: more than 19 years

H.H. Shaikha Hessa bint Khalifa Al Khalifa is a Board member in Al Salam Bank-Bahrain since 2009 and she was elected as the Chairperson of the Board for two consecutive terms from 2012. She has an extensive local and global business experience and is an active Advocate for enterprise education and in developing the skills of young women. She became a member of the Supreme Council for Women's Social Committee in 2001 and since 2004 has been a Permanent Member of the Council's Board. In 2005, H.H. Shaikha Hessa founded "INJAZ Bahrain", an international organization to inspire and prepare young Bahrainis to succeed in the global economy, and is presently its Executive Director. She has participated as a speaker and panelist at various international forums including the UN, and the World Economic Forum. H.H. Shaikha Hessa holds a Bachelor's degree in Management, a Master's degree in Social Policy and Planning from the London School of Economics and Political Science, and a MSc in Development Finance from the University of London.

H. E. Shaikh Khalid bin Mustahail Al Mashani
Vice Chairman

Independent and non-executive

Director since: 5 May 2014
Term started: 24 February 2015
Experience: more than 23 years

H.E. Shaikh Khalid bin Mustahail Al Mashani offers the Bank over 23 years of in depth experience. He is the Chairman of the Board of Directors of Bank Muscat S.A.O.G., Director of Al Omaniya Financial Services Company, and Chairman of Dhofar International Development & Investment Holding Company S.A.O.G. Shaikh Khalid has a BSc. in Economics, and a Master's Degree in International Boundary Studies from the School of Oriental and African Studies (SOAS), from the University of London.

Mr. Hussein Mohammed Al Meeza
Director

Chairman of the Executive Committee
Independent and non-executive

Director since: 20 March 2012
Term started: 24 February 2015
Experience: more than 43 years

Mr. Hussein Mohammed Al Meeza is a respected and award-winning Banker with over 43 years of experience spanning the Islamic banking, finance and insurance sectors. His outstanding career success was crowned in December 2006 when the International Conference of Islamic Bankers chose him as the 2006 Best Islamic Banking Personality. Mr. Al Meeza is an Independent and non-executive Director of Al Salam Bank-Bahrain since 20 March 2012, and began his term as Board Member and Chairman of the Executive Committee on 24 February 2015. His professional career began in 1975 at the Dubai Islamic Bank (DIB), where he spent 27 years developing the Bank's services. Mr. Al Meeza played a key role in the establishment of the Al Salam Banks in Sudan, Bahrain and Algeria. He is also the Chairman of Al Salam Bank-Seychelles, Chairman of Top Enterprises L.L.C., Chairman of Lycée Fracais Jean Mermoz L.L.C., and Vice Chairman and Chairman of the Executive Committee of Al Salam Bank- Algeria. He was a founding member of Emaar properties, Amlak finance, Emaar Industries & Investments, Emaar Financial services, Dubai Islamic Insurance & Reinsurance Company (AMAN). Mr. Al Meeza occupied the positions of the CEO and Managing Director of Dubai Islamic Insurance and Reinsurance Company (AMAN), Vice Chairman and Chairman of the Executive Committee of Al Salam Bank-Sudan, Chairman of LMC Bahrain, Chairman of the Executive Committee of Islamic Trading company in Bahrain, Board member and Chairman of the Executive Committee in Amlak Finance – Dubai and Chairman of Emaar Financial Services Dubai, Vice Chairman of Emirates Cooperative Society – Dubai. Board member of the General Council of Islamic Banks and Financial Institutions, Chairman of the founding committee of Islamic Insurance and Re-Insurance Companies. He was also a Board Member of Emirates Society for Insurance. Mr. Al Meeza is a graduate of the Beirut Arab University and holds an MBA degree from La Jolla University, USA.

Mr. Salman Saleh Al Mahmeed
Director

Chairman of the Audit and Risk Committee
Independent and non-executive

Director since: 15 February 2010
Term started: 24 February 2015
Experience: more than 33 years

Mr. Salman Saleh Al Mahmeed is a prominent business figure with experience exceeding 33 years. He is the Chief Executive Officer of Bahrain Airport Services, the Deputy Chairman of Dar Albilad, the Managing Director and Owner's Representative of Global Hotels, Global Express and the Movenpick Hotel in Bahrain. Previously, he was a Board Member and member of the Investment, Executive and Strategic Options Committee for the Bahraini Saudi Bank, and the Investment Director of Magna Holdings. Mr. Al Mahmeed holds an MBA in Business Administration, a Masters in Hotel Management and a BSc in Management.

Mr. Essam bin Abdulkadir Al Muhaidib
Director

Independent and non-executive

Director since: 17 April 2006
Term started: 24 February 2015
Experience: more than 33 years

Mr. Essam A. Al Muhaidib is a Board Member and Group CEO of Al Muhaidib Group and sits in the Board of Directors of multiple FMCG, Banking, Financial, Real Estate, Retail, Industrial and Contracting companies. Savola Group, ACWA Holding, Nestle Waters, Bawan, Abyat, Al Salam Bank, Blominvest KSA, Rafal Real Estate, Economic Cities Authority Saudi Arabia are few of them. He is also the Chairman of Panda Retail Company, Herfy Foods Services Company and National Housing Company (NHC, KSA) and Eastern Province Health Cluster. In addition, he is a Board Member of various charity, benevolence and educational institutions including the Educational Services Company of Prince Mohamed Bin Fahad University, King Fahad University for Petroleum and Minerals Endowment Fund, Saudi Food Bank (Etaam Society), Disabled Society, and the Benevolence Society (Al Bir Society). Mr. Al Muhaidab holds a Bachelor of Science in Statistics from King Saud University, Riyadh.

Mr. Sulaiman bin Mohamed Al Yahyai
Director

Independent and non-executive

Director since: 5 May 2014
Term started: 24 February 2015
Experience: more than 23 years

Mr. Sulaiman bin Mohamed Al Yahyai is a well-versed banking professional who brings to Al Salam Bahrain over 23 years of industry experience. He is the Deputy Chairman of the Board of Directors of Bank Muscat, Chairman of the Board Risk Committee, and a member of the Board's Nomination and Compensation Committee. Mr. Al Yahyai is an Investment Advisor at the Royal Court Affairs, and is a Chairman of a number of boards including those of the Oman Chlorine Co. "SAOG", Oman Fixed Income Fund, Integrated Tourism Projects Fund, Telecom Oman, National Bank of Oman GCC Fund and of Gulf Chlorine "W.L.L" (State of Qatar). He also holds Directorship positions on Al Madina Real Estate Co. "SAOC", Falcon Insurance "SAOC", and Union Chlorine "L.L.C" (United Arab Emirates). He holds an MBA from the Institute of Financial Management, University of Wales, UK, a certificate in Asset Management from Lausanne University, Switzerland, and a certificate in Financial Crisis from Harvard University, USA.

Mr. Hisham Saleh Al Saie
Director

Independent and non-executive

Director since: 5 May 2014
Term started: 24 February 2015
Experience: more than 23 years

Mr. Hisham Saleh Al Saie offers extensive experience in the Investment Management, Corporate Finance Advisory and Investment Banking fields. Mr. Al Saie brings more than 23 years of industry knowledge to Al Salam Bank-Bahrain. Prior to his current responsibilities in Overseas Investment Company S.P.C., Mr. Al Saie was Head of Corporate Finance at SICO Investment Bank, and also held senior positions at BDO Jawad Habib, PriceWaterhouse Coopers and Arthur Andersen. He is a member of the Board of a number of organizations including Nass Corporation B.S.C., Al Khalij Commercial Bank (al khaliji) Q.S.C., Diyyar Al-Muharraq B.S.C. (c), Bahrain Bay Development B.S.C. (c), Global Banking Corporation B.S.C. (c), Binaa Al Bahrain B.S.C. (c), LAMA Real Estate W.L.L. and Investcorp Bank B.S.C. Mr. Al-Saie is a member of the Remuneration, Nomination and Corporate Governance Committee of Al Salam Bank-Bahrain. He holds an MBA from the London Business School, a Bachelor degree in Accounting from the University of Texas, executive education certificates from INSEAD and other reputable institutions.

Mr. Mohamed Shukri Ghanem
Director

Independent and non-executive

Term started: 24 February 2015
Experience: more than 18 years

Mr. Mohamed Shukri Ghanem brings over 18 years of extensive experience in the regional financing market and in global energy issues, including business development, project financing as well as the origination of advisory assignments relating to oil, oil field, natural gas and power generation segments. He is the Chief Executive Officer, Board Member and member of the Executive Committee of First Energy Bank Bahrain. Prior to this he worked at Arab Banking Corporation (BSC) ("ABC") and GED Handles G.m.b.H., Vienna. Mr. Ghanem is the Chairman of MENAdrill Investment Company, ADCAN Pharma LLC – UAE, Medisal Pharmaceuticals Industry LLC – UAE and Vice Chairman of Alizz Islamic Bank, Oman where he is also the Chairman of the Executive Committee. Mr. Ghanem holds a Bachelor of Arts in Business from Webster University (School of Business and Technology) in Vienna as well as an MBA from Glamorgan University.

Mr. Khalid Salem Al-Halyan
Director

Independent and non-executive

Term started: 24 February 2015
Experience: more than 33 years

Mr. Khalid Salem Al-Halyan is a business professional with over 33 years of senior level experience spanning a number of industries. Mr. Al-Halyan is currently the group Chief Audit Executive at Dubai Aviation City Corporation (DACC). His career has seen him hold senior positions at the UAE Central Bank, the Department of Economic Development (DED), Dubai, and in the aviation industry where he played a key role in the establishment of the new Dubai Airport Free Zone (DAFZA) and head up the Finance Department, before moving on to establish the Group Internal Audit & Risk Assessment (GIARA) function at DACC. Mr. Al-Halyan has also supported the establishment of DED, Emaar Properties, the UAE Internal Audit Association, the UAE Golf Association and restructured projects for DUBAL, Dubai World Trade Centre, Dubai Civil Aviation, UAE Central Bank Banking Supervision, and realized the construction of a new facility for the Al Noor Special Needs Centre in Dubai. He currently serves as Vice President of the UAE Internal Audit Association (affiliated to the Institute of Internal Auditors (IIA), USA), is Chairman of Al Noor Special Needs Centre in Dubai, Chairman of Emaar South, Dubai, and Advisor to the Amlak Real Estate Company. Mr. Al-Halyan holds an MBA degree from Bradford University in the UK, and a BBA from the UAE University, Al Ain.

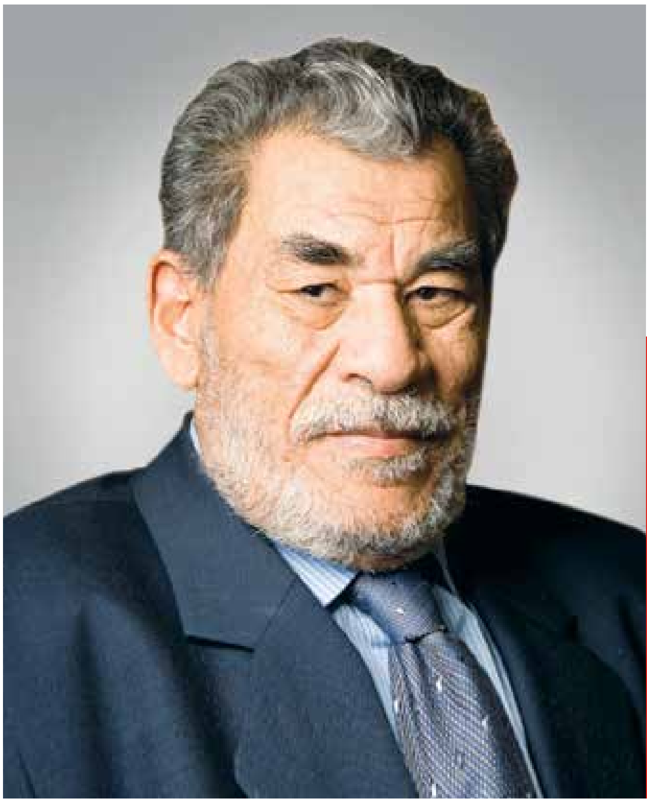
Mr. Yousif Abdulla Taqi
Director and Group Chief Executive Officer

Executive

Director since: 05 May 2008
Term started: 24 February 2015
Experience: more than 35 years

A Certified Public Accountant (CPA), Mr. Yousif Abdulla Taqi is a veteran banker with more than 35 years of experience in key positions for a number of leading financial institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain, Mr. Taqi was the Deputy General Manager of Kuwait Finance House (Bahrain), where he was responsible for establishing Kuwait Finance House Malaysia. Prior to this, he was a Partner with Ernst & Young responsible to provide auditing and consultancy services to the Islamic financial firms. In addition to his roles as Director and Group Chief Executive Officer of Al Salam Bank-Bahrain, Mr. Taqi is also the Chairman of the Bank's affiliate companies Manara Developments Company B.S.C. (c) and Amar Holding Company B.S.C. (c). He is also a Board member of the Housing Bank (Bahrain), Aluminium Bahrain (ALBA), and Deputy Chairman of The Avenues Company S.P.C.

Fatwa & Shari'a Supervisory Board



Dr. Hussein Hamid Hassan
Chairman

Dr. Hussein Hamid Hassan holds a PhD from the Faculty of Shari'a, Al Azhar University, Cairo, Egypt; and a Master's in Comparative Jurisprudence and Diploma in Comparative Law (both of which are the equivalent of a PhD) from the International Institute of Comparative Law, University of New York, USA. He also holds a Masters in Comparative Juries, and Diplomas in Shari'a and Private Law, from the University of Cairo; and an LLB in Shari'a from Al Azhar University. He is the Chairman and member of the Shari'a Supervisory Board in many of the Islamic Financial Institutions. In addition, Dr. Hassan is Chairman of the Assembly of Muslim Jurists, Washington, USA; a member of the European Islamic Board for Research & Consultation, Dublin, Ireland; and an Expert at the Union of Islamic Banks, Jeddah, Kingdom of Saudi Arabia.

Dr. Ali Mohuddin Al'Qurra Daghi
Member

Dr. Ali Daghi holds a PhD in Shari'a and Law, and a Master's in Shari'a and Comparative Fiqh, from Al Azhar University, Cairo, Egypt. He also holds a BSc. in Islamic Shari'a from Baghdad University, Iraq; a certificate of traditional Islamic Studies under the guidance of eminent scholars in Iraq; and is a graduate of the Islamic Institute in Iraq. He is currently Professor of Jurisprudence in the faculty of Shari'a law and Islamic Studies at the University of Qatar. He sits on the Boards of Shari'a Supervisory Boards for several banks and financial institutions. Dr. Al'Qurra Daghi is also a member of the Islamic Fiqh Academy, the Organisation of Islamic Conference, the European Muslim Council for Efta and Researches, the International Union of Muslim Scholars, and the Academic Advisory Committee of the Islamic Studies Centre, Oxford University, UK. He also has published several research papers tackling various types of Islamic Finance, Islamic Fiqh, Zakah and Islamic Economy.

Shaikh Adnan Abdulla Al Qattan
Member

Shaikh Adnan Al Qattan holds Master's degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Shari'a Supreme Court, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court - Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al-Fatih Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.

Dr. Mohamed Abdulhakim Zoeir
Member

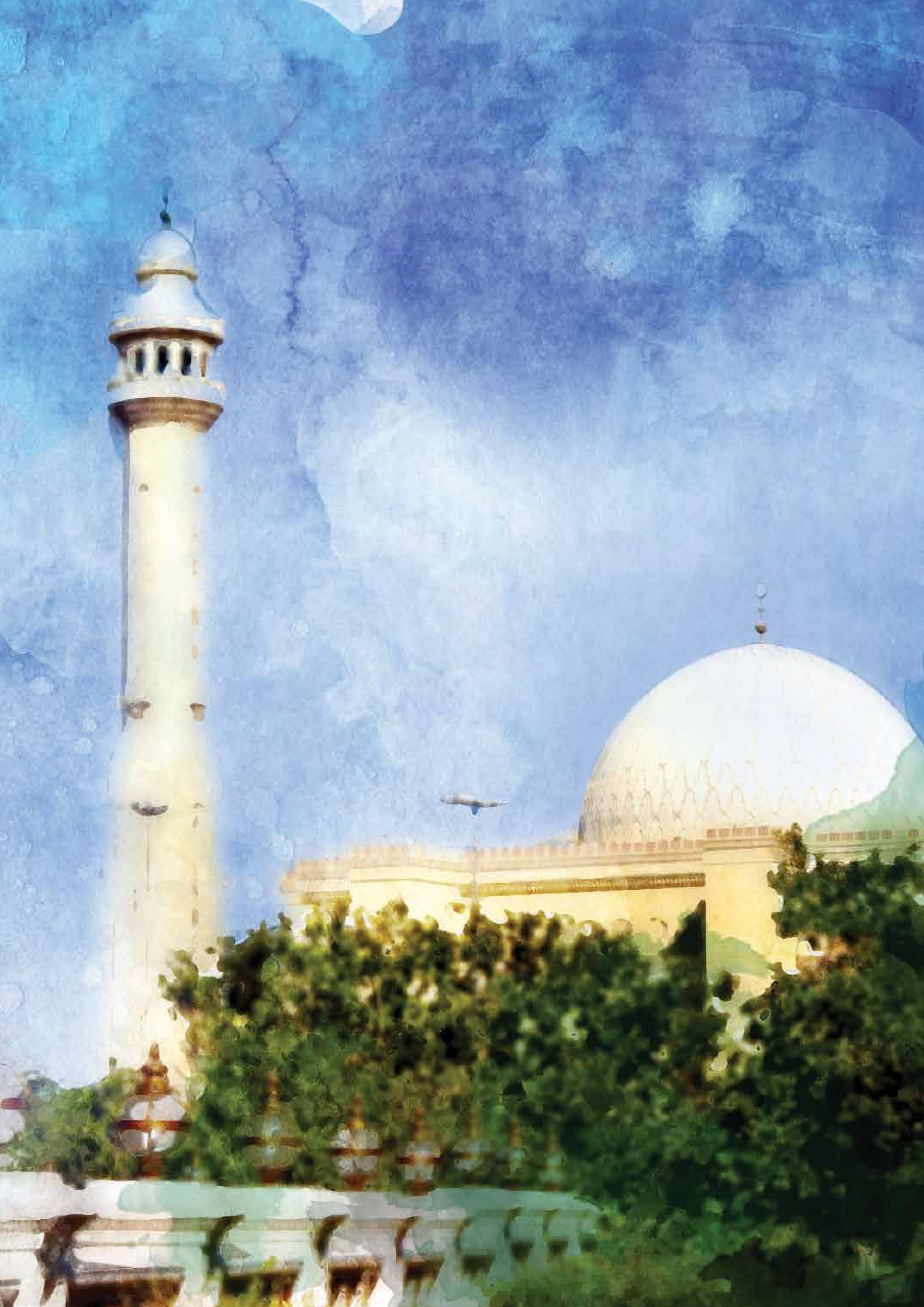
Dr. Mohamed Zoeir holds PhD in Islamic Economy; Master's degree in Islamic Shari'a (Economy); Bachelor's degree in Management Sciences; and a Higher Diploma in Islamic Studies. He is Member of the Fatwa Board in a number of Islamic financial institutions and has 18 years of experience with Egypt Central Bank. Dr. Zoeir was also the Head of Shari'a compliance in Dubai Islamic Bank.

His Eminence Shaikh Dr. Fareed Yaqoob Almeftah
Member

Dr. Fareed Almeftah is the Undersecretary of the Ministry of Justice & Islamic Affairs – Bahrain, member of the Supreme Council of Islamic Affairs and a former judge of the high Shari'a Court. Dr. Fareed is the Chairman of the Shari'a Supervisory Board of Khaleeji Commercial Bank (KHCB) and a former Lecturer at the University of Bahrain and wrote a lot of research papers. Dr. Fareed holds PhD in Islamic Philosophy from University of Edinburgh – United Kingdom.

Dr. Mohammed Burhan Arbouna
Member & Secretary to the Shari'a Supervisory Board
Group Head of Shari'a Compliance

Dr. Mohammed Burhan Arbouna holds a PhD in laws with specialization in Islamic banking and finance from International Islamic University Malaysia, and Master's in Comparative Laws. He also holds BA degree in Shari'a and Higher Diploma in Education from Islamic University, Medina. He is an expert in Islamic banking and finance since 1997. Before joining Al Salam Bank- Bahrain, Dr. Arbouna was the Shari'a Head and Shari'a Board member in the Seera Investment Bank B.S.C Bahrain. Prior to that, he worked as the Head of Shari'a department in the Kuwait Finance House-Bahrain. Also, Dr. Arbouna worked as Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – Bahrain. Dr. Arbouna lectures on Islamic banking and finance and gives consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna is a member of Islamic Money Market Framework (IMMF) steering committee initiated by Central Bank of Bahrain for management of liquidity among Islamic banks.



Executive Management Team

Mr. Yousif Abdulla Taqi
Director and Group Chief Executive Officer

Experience: more than 35 years

A Certified Public Accountant (CPA), Mr. Yousif Abdulla Taqi is a veteran banker with more than 35 years of experience in key positions for a number of leading financial institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain, Mr. Taqi was the Deputy General Manager of Kuwait Finance House (Bahrain), where he was responsible for establishing Kuwait Finance House Malaysia. Prior to this, he was a Partner with Ernst & Young responsible to provide auditing and consultancy services to the Islamic financial firms. In addition to his roles as Director and Group Chief Executive Officer of Al Salam Bank-Bahrain, Mr. Taqi is also the Chairman of the Bank's affiliate companies Manara Developments Company B.S.C. (c) and Amar Holding Company B.S.C. (c). He is also a Board member of the Housing Bank (Bahrain), Aluminium Bahrain (ALBA), and Deputy Chairman of The Avenues Company S.P.C.

*Subsequent to year end, Mr. Yousif Taqi resigned in March 2018.

Dr. Anwar Khalifa Al Sada
First Deputy Group CEO

Experience: more than 28 years

Dr. Anwar Al Sada brings to the Bank experience gained from a distinguished career that spans over 28 years much of it being with the Central Bank of Bahrain where he held the prestigious post of Deputy Governor of the Central Bank of Bahrain (CBB). Dr. Al Sada was the Chairman of the Bahraini Saudi Bank, Vice Chairman of Eskan Bank, and has served in a number of national, regional and international committees including Chairman of the Investment Committee of the CBB, Vice Chairman of the Bahrain Bourse, Chairman of Bahrain's Policy Committee for Prohibition and Combating of Money Laundering and Terrorist Financing, Member of the Future Generation Fund and Member of Promotion Board. Dr. Al Sada holds a Master degree in Philosophy and a PhD from the University of Surrey, UK, and has attended Harvard University's Management Development course.

*Dr. Anwar Al Sada resigned in December 2017.

Mr. Anwar Mohammed Murad
Deputy Group CEO - Banking

Experience: more than 24 years

Mr. Anwar Murad is a proficient Banker with over 24 years of experience in the areas of Private Banking, Treasury, Market Risk Management and Retail Banking. Prior to his current appointment with the Bank, Murad served as the Executive Vice President - Head of Private Banking at Al Salam Bank-Bahrain since May 2006. Previous to joining Al Salam Bank-Bahrain, he was the Head of Private Banking at BMI Bank, Bahrain and Regional Market Risk Manager for the MENA region at ABN AMRO Bank where he also headed the Bank's Treasury Operations in Bahrain and he held various senior positions at CitiBank – Bahrain. Mr. Murad has extensive knowledge and experience in Global Consumer Banking, Treasury and Investment products including Money Market, Foreign Exchange, Debt Derivatives, and Structured Products.

Mr. Abdulkarim Turki
Chief Operating Officer

Experience: more than 37 years

Mr. Abdulkarim Turki is a well-rounded banker with more than 37 years of experience spanning Treasury, Operations, Audit, Internal Controls, Remedial and Risk Management. Mr. Turki worked in the incorporation and structuring of the Bank's Operation and he was appointed as a key member in the Selection and Implementation Committee of the Bank's core banking system responsible for the integration and business transfer of BMI Bank to Al Salam Bank-Bahrain in addition to being a member in the Bank's major management committees. Prior to joining the Bank in 2006, Mr. Turki was Vice President - Head of Treasury Support at Citibank Bahrain where he headed various departments and business units and was a key player in the launch of Citi Islamic Investment Banking. Mr. Turki holds an MBA in Investment & Finance from the University of Hull, UK.

Dr. Mohammed Burhan Arbouna
Group Head of Shari'a Compliance

Experience: more than 20 years

Dr. Mohammed Burhan Arbouna is a well versed Islamic banking and finance expert with over 20 years of Islamic banking experience. Prior to joining Al Salam Bank-Bahrain, Dr. Arbouna was the Shari'a Head and Shari'a Board member of Seera Investment Bank B.S.C Bahrain, Head of the Shari'a department at Kuwait Finance House Bahrain, and has worked as a Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain. He is a respected lecturer on Islamic banking and finance, and provides consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna was also a member of the Islamic Money Market Framework (IMMF) steering committee, a committee initiated by the Central Bank of Bahrain for the management of liquidity amongst Islamic banks. He holds a PhD in comparative law with a specialization in Islamic banking and finance and a Masters in Comparative Laws with specialization in Law of Evidence from the International Islamic University Malaysia, a BA degree in Shari'a, and Higher Diploma in Education from the Islamic University, Medina.

Mr. Hussain Ali Abdulhaq
Head of Treasury and Capital Markets

Experience: more than 17 years

Mr. Hussain Abdulhaq is an experienced Treasurer in the area of Islamic Banking and Financial Markets. His 17 years banking career as a treasury specialist has seen very focused on in Islamic liquidity management, Islamic capital markets, the development of Islamic compliant investment products and hedging instruments as well as Financial Institutions relationships. Mr. Abdulhaq joined Al Salam Bank-Bahrain in 2007 as a senior member in the treasury team, and has led the treasury integration process of Al Salam Bank and Bahrain Saudi Bank in 2010 and the same for BMI Bank in 2014. Prior to joining Al Salam Bank, Abdulhaq was in charge of dealing room activities for Kuwait Finance House Bahrain for a period of 5 years. Mr. Abdulhaq holds an MBA degree in Banking & Islamic Finance with honors from University of Bahrain and is a Chartered Financial Analyst (CFA).

Mr. Essa Abdulla Bohijji
Group Chief Auditor

Experience: more than 17 years

Mr. Essa Bohijji has more than 17 years of consulting and industry experience covering financial services, commercial entities, governmental bodies, and internal audit. Prior to joining Al Salam Bank-Bahrain, Mr. Bohijji was the Chief Auditor and Board Secretary of an Islamic Investment Bank in Bahrain and held senior positions at Ernst & Young where he worked in the Audit and Assurance Services Group and Business Advisory Services responsible for the Internal Audit and Risk Management assignments. Mr. Bohijji currently serves as a Board and Audit Committee member of Al Salam Bank-Algeria and a non-executive Audit Committee member in Manara Developments B.S.C. (c) and served as a Board member of BMI Bank and an interim Board member in BMIO Bank in Seychelles. Mr. Bohijji was also on the Board and Audit Committee Member for the Bahraini Saudi Bank in 2009 prior to its full merger with Al Salam Bank Bahrain in late 2012. Mr. Bohijji is a Certified Public Accountant (CPA), licensed from the state of New Hampshire and is a member of the American Institute of Certified Public Accountants. He also holds a B.Sc. in Accounting from the University of Bahrain.

Ms. Muna Al Balooshi
Group Head of Human Resources and Administration

Experience: more than 19 years

Ms. Muna Al Balooshi is a practiced HR professional with over 19 years of industry experience and vast knowledge of HR policies and Labor Law regulations. Prior to her appointment with Al Salam Bank-Bahrain in 2006, Ms. Al Balooshi was the Head of Human Resources at the Court of HRH the Crown Prince and previous to this served in the HR department of KPMG. She has played a major role in the Bank's two acquisitions of the Bahraini Saudi Bank and BMI Bank where she managed the merger of the Bank's Human Resources. She holds an MBA from De Paul University, Chicago, and is a CIPD Associate.

Mr. Qassim Taqawi
Group Head of Legal

Experience: more than 14 years

Mr. Qassim Taqawi is a skilled legal counsel with over 14 years' experience covering Investment Banking, Islamic Banking, Retail Banking, Finance, Company Law, Labor Law, Real Estate and Construction. Mr. Taqawi has handled legal matters covering the GCC, USA, Europe and MENA region. Prior to his appointment with Al Salam Bank-Bahrain, Taqawi held a number of senior executive positions with various Banking and Financial Institutions throughout the region. In addition to his current executive responsibilities as Group Head of Legal, Mr. Taqawi is a member of the Bank's Investment Committee and Remedial Committee. Mr. Taqawi holds a Bachelor degree (LLB) in Law, and is a registered lawyer with the Ministry of Justice & Islamic Affairs in the Kingdom of Bahrain.

Mr. Talal Abdul Aziz Al Mulla
Chief Investments Officer

Experience: more than 18 years

A Certified Public Accountant (CPA), Mr. Talal Al Mulla has been an active member of Bahrain's banking and financial services industry for the last 18 years. Mr. Al Mulla joined Al Salam Bank-Bahrain in 2006 to set up the Internal Audit function and in 2009, moved to the Bank's Investment Department where he has been sourcing and managing investment opportunities. Preceding his appointment to Al Salam Bank-Bahrain, Mr. Al Mulla worked with Ernst & Young Bahrain where he was responsible for audit and consulting assignments for major regional financial institutions. He also sits on the Board of Directors of a number affiliates and subsidiary companies in which the Bank has invested.

Mr. Ahmed Abdulla Saif
Group Head of Strategic Acquisition and Investment Management

Experience: more than 11 years

Mr. Ahmed Saif brings over a decade of experience in the banking sector. Prior to joining Al Salam Bank-Bahrain in 2008 as an Associate in the Investment Team, Mr. Saif worked with DBS Singapore as an Investment Analyst. In 2012, he was appointed as the Head of the Investment Middle Office Department, and in 2016 took the reigns as the Head of Strategic Acquisition and Investment Management. Mr. Saif sits on the Board of a number of the Bank's affiliate and subsidiary companies, including Al Salam Bank-Seychelles, NS Real Estate Holding, and SAMA Investment Company. He holds an MSc in Finance and Financial Law with Honors from SOAS University of London, UK, and a BSc with Honors in Commerce, majoring in Finance & Economics, from DePaul University, USA.

Mr. Arif Mohammed Janahi
Head of Corporate Banking

Experience: more than 24 years

Mr. Arif Janahi is a competent commercial banker with more than 24 years of experience across both conventional and Islamic banking, in the Operations and Corporate Banking functions. He brings to the Bank vast knowledge of the market, and an in-depth understanding of banking products and credit assessment. Before joining the Bank in 2006, Janahi held key positions in a number of well-known Islamic and conventional banks. He holds an MBA from the University of Hull, UK.

Mr. Ali Habib Qassim
Head of Private Banking

Experience: more than 18 years

Mr. Ali Habib Qassim is a banking expert with more than 18 years of experience covering Corporate, Investment and Private Banking; developing new products, locally and throughout GCC and capitalizing on his investment experience. Previous to his appointment with the Bank's Private Banking division in 2011, Mr. Qassim marketed the Bank's Corporate Banking products and services in local markets after which he handled financial institutions and government relationships. He holds a Master Degree in Science from Emerson College, Boston. USA.

Mr. Mohammed Yaqoob Buhijji
Head of Retail Banking

Experience: more than 14 years

Mr. Mohammed Buhijji brings to the Bank more than 14 years of consultancy and banking experience. He joined Al Salam Bank-Bahrain in 2006 when he set up the Internal Audit division and various departmental policies and procedures during the Bank's establishment. In 2009, he moved to the Bank's Retail Banking division where he supported the development of products, services, the core banking system and Retail Banking policies. He also played an essential role in the integration and conversion phases of the Bank's acquisition of the Bahraini Saudi Bank and BMI Bank; serving as a member in the Integration Steering Committee and various other management committees including IT Steering Committee and Information Security Steering Committee. Prior to joining Al Salam Bank-Bahrain, he worked with Ernst & Young in the Business Risk Services division, where he was responsible for managing the audit and consultancy services for major financial institutions and governmental bodies. He holds an MBA degree from the University of Strathclyde Business School, Glasgow and a Bachelor degree in Accounting. He has also completed Executive Management Programs in Harvard Business School in USA and Ivey Business School in Canada.

Mr. Sadiq Al Shaikh
Head of FIG and International Banking

Experience: more than 20 years

Mr. Sadiq Al Shaikh is a professional banker with over 20 years of experience in both Wholesale and Retail Banks in the Kingdom of Bahrain. Mr. Al Shaikh manages global markets with a focus on the GCC, MENA region, East Africa, South Asia and CIS region, where he develops Financial Institutions Group (FIG) products and structured finance. These include bilateral and syndication, correspondent and transaction banking, global trade finance instruments, export credit insurance covers and credit review of credit limits for countries and banks. Prior to joining Al Salam Bank-Bahrain in 2014, he was the Head of FIG & International banking at BMI Bank for 10 years, and held various senior positions for 7 years at the Arab Investment Company in Operations, Risk Management and the International Banking Division, covering Financial Institutions and Corporate products in overseas markets. Mr. Al Shaikh holds a Bachelor degree in Business Management majoring in finance and marketing from Bangalore University.

Mr. Ali Al Khaja
Head of Compliance and MLRO

Experience: more than 9 years

Mr. Ali Al Khaja brings more than 9 years of Compliance experience to the Bank. Prior to joining Al Salam Bank-Bahrain, he worked with Kuwait Finance House Bahrain, where he was responsible for various regulatory aspects including ensuring that transactions, investments and general dealings with the public were in compliance with the Central Bank of Bahrain (CBB) regulations and applicable laws. Previous to this he was employed by the CBB, where he held responsibility for the oversight of various local Islamic Banks in the Kingdom of Bahrain. Mr. Al Khaja holds a Bachelor degree in Banking and Finance from the University of Bahrain and an International Diploma in Compliance from the International Compliance Association (ICA).

Mr. Khalid Jalili
Acting Head of Finance

Experience: more than 18 years

Mr. Khalid Jalili offers more than 18 years of accounting and finance experience. He joined Al Salam Bank-Bahrain in 2009 as the Head of Strategic Support and was actively involved in the Bank's first business acquisition of Bahraini Saudi Bank. He was also elected as a member in the Acquisition Steering Committee and ALCO committee. Before commencing his career with the Bank, he worked with Gulf International Bank B.S.C. in the Financial Control department and previous to this was in the Audit and Assurance services at Ernst & Young. Mr. Jalili is a Chartered Certified Accountant (ACCA) and holds a Bachelor degree in Accounting from the University of Bahrain.

Board of Directors' Report to the Shareholders

The Directors of Al Salam Bank-Bahrain B.S.C. ("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 consolidated financial statements comprise the financial statements of the Bank and its subsidiary, Al Salam Bank-Seychelles Limited, together known as the "Group".

A combination of improved monetary conditions, solid labor markets, healthy global trade and higher commodity prices led global growth to expand in the second half of 2017 at the fastest acceleration witnessed since early 2011. The global growth was particularly strong in the second half of the year rising to 3.3%, up from 2.7% in 2016.

Closer to home the news was not as positive with subdued oil prices continuing to deflate investor sentiment across the Gulf Cooperation Council (GCC) and in particular in Bahrain where fiscal debt continues to moderate economic growth. Bahrain is however introducing revenue enhancing measures, and together with the proposed GCC-wide Value Added Tax (VAT) introduction, which is expected to be implemented towards end of 2018, government balances could improve. The financial sector assessment by International Monetary Fund (IMF) indicates that the banking sector has remained resilient with adequate capitalization and liquidity levels, as regulation and supervision of the sector was strengthened by the Central Bank of Bahrain (CBB).

Notwithstanding the above market challenges, the Bank is pleased to report positive results for the year, posting a net profit attributable to shareholders of BD 18.1 million, an increase of 11.6% over the previous year, (2016: BD 16.2 million), attributable to a continued focus on the core banking business, after taking into consideration recognition of allowance for credit losses and impairment of BD 20.7 million. Sustained cost control measures during the year witnessed a decrease in total operating expenses by BD 1.8 million compared to last year. As of 31 December 2017, total assets of the Group stood at BD 1,589 million (2016: BD 1,681 million).

Al Salam Bank-Seychelles, a subsidiary of Al Salam Bank-Bahrain, continued the process of re-establishing in 2017, following the handover from the Central Bank of Seychelles in 2016. This includes but not limited to strengthening of the human capital workforce, revamping and optimization of the IT infrastructure and moving to its new headquarters. Al Salam Bank-Seychelles is expected to launch its retail operations during the first half in 2018. Aligned with the Group's strategy to create a bridge between the GCC and the Indian Ocean Rim countries, Al Salam Bank-Seychelles is expected to become the launching pad for the Group's Banking and Investment activities in the region. The Group's International presence in markets such as Algeria, Seychelles and Kenya will help in sourcing international transactions and further expanding the business outreach.

During the reporting period, the Group remained focused on generating value through sustained growth in core banking activities, with a particular focus on building the Retail Banking business. The Group continued to deploy liquidity into growing its financing portfolio and availing alternative sources of funding at competitive rates. As a result, net financing portfolio grew by 10% to BD 737 million in 2017, up from BD 667 million a year ago.

The Group continued to adopt a cautious approach in selecting investments in line with the Board's risk appetite, and aligned with a focus on stable income generating assets, the Group successfully acquired BD 10.8 million mezzanine financing facility for prime commercial real estate in the heart of Cardiff in the United Kingdom, restructured an existing lease of an A330 aircraft for a period of eight years, and exited an equity stake in a Boeing 777 aircraft on lease to a Middle Eastern Airlines.

The Directors and management of Al Salam Bank-Bahrain will continue to maximize the Bank's strength across core businesses to ensure sustainable business growth in the coming years. We will remain committed to expansion within the Kingdom of Bahrain and beyond its borders as we position Al Salam Bank-Bahrain brand as a trusted global leader in the provision of diversified and innovative Shari'a-compliant products and services.

Retained earnings and appropriation of net income	BD'000
Balance as of 1 January 2017	50,695
Transition adjustment on adoption of FAS 30 as of 1st January 2017*	(26,759)
Net profit for the year – 2017	18,099
Transfer to statutory reserve	(1,810)
Proposed dividend for the year 2017	(14,987)
Reversal of 2016 dividend on treasury stock	79
Balance as of 31 December 2017	**25,317**

**FAS 30: Financial Accounting Standard "Impairment, Credit Losses and Onerous Commitments".*

Directors' and senior management interest:

The interests of directors and senior managers in the shares of Al Salam Bank-Bahrain B.S.C. and the distribution of the shareholdings as of 31 December 2017.

	No. of shares
Directors' shares	1,772,819
Senior managers' shares	119,331
Total	**1,892,150**

Directors' remuneration for the year 2017 amounted to BD 415 thousands (2016: BD 389 thousands).

Shari'a Supervisory Board's remuneration for the year 2017 amounted to BD 66 thousands (2016: BD 49 thousands).

	2017		
	No. of shares	**No. of shareholders**	**% of total outstanding shares**
Percentage of shares held			
Less than 1%	925,482,687	22,729	43.23
1% up to less than 5%	771,179,889	15	36.02
5% and above	444,268,176	2	20.75
Total	**2,140,930,752**	**22,746**	**100.00**

Shareholders holding over 5%	Nationality	Holding
Bank Muscat S.A.O.G.	Oman	14.74%
Overseas Investment S.P.C.	Bahrain	6.01%

The Directors take this opportunity to express their appreciation to the leadership led by His Majesty 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 Salman bin Hamad Al Khalifa, the Ministry of Finance, the Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, the Bahrain Bourse, correspondents, customers, shareholders and employees of the Bank for their support and collective contribution since the establishment of the Bank and we look forward to their continued support in the fiscal year 2018.

Shaikha Hessa bint Khalifa bin Hamad Al Khalifa
Chairperson

13 February 2018
Manama, Kingdom of Bahrain

Message from the Group CEO

While global growth was strong during the second half of 2017, regional economic growth continued to be moderate on account of fiscal debt. In spite of these market challenges and challenging business environment, Al Salam Bank-Bahrain B.S.C. ("ASBB", "the Bank") achieved positive results for the year.

The net profit attributable to shareholders of the Bank for the year was BD 18.1 million (2016: BD 16.2 million) after taking into consideration allowances for credit losses and impairment of BD 20.7 million (2016: BD 21.6 million).The Group continued to focus on generating value through sustained growth in core banking activities. Income from its core banking activities after taking into account profits payable to banks and non-banks on deposits and borrowings showed an impressive 24.5% increase to BD 40.6 million, compared to BD 32.6 million in 2016. Moreover, as a result of sustained efforts to manage costs, total operating expenses of BD 24.3 million reduced by BD 1.8 million as compared to 2016 levels (2016: BD 26.1 million).

The year witnessed an unswerving concentration on improving shareholder return, increasing stakeholder value and commitment towards our vision to become one of the leading Islamic financial institutions in the region. The Group underscored its ability to remain agile as it expands by successfully adapting and reacting to market risks whilst maintaining a focus on the achievement of our financial goals.

During the year the Group successfully completed the formal process to transfer the entire BMI Bank business to Al Salam Bank-Bahrain. Pursuant to the Central Bank of Bahrain Resolution No. (22) published in the official gazette under issue number 3310 dated 20 April 2017, the Central Bank of Bahrain approved BMI Bank B.S.C. (c) request to transfer its entire banking business including all of its assets and liabilities to Al Salam Bank-Bahrain. Through this integration, customers can take advantage of ASBB's complete range of innovative and unique Shari'a-compliant financial products and services through its extended network of branches and ATMs by providing quicker, more amalgamated products and services for our Islamic banking customers. The Bank is now one of the leading Islamic Banks in the Kingdom of Bahrain in regard to total assets as of 31 December 2017, and will continue to consolidate its position by further enhancing business effectiveness and efficiency. The full integration has increased human capital capabilities, delivered abundant liquidity and sizable capital, and has created a larger customer base that is centrally managed by the respective banks' units.

Testament to the success of the Group's strategic efforts to position Al Salam Bank-Bahrain as the leading Shari'a-compliant Retail Bank in the Kingdom of Bahrain, the Retail Banking business achieved monumental growth and the Bank is fast becoming a brand preferred by Retail Banking customers. As such, business expansion continued with a full-service branch opened in Isa Town during the year. Testament of the Bank's performance and successful transformation into a leading Retail Bank, Al Salam Bank-Bahrain was recognized on the global stage as "The Best Islamic Retail Bank in Bahrain", a Critics' Choice Award by Cambridge IF Analytic at the Islamic Retail Banking Awards (IRBA) in 2017.

The investment business effectively navigated a difficult operating and business environment throughout the year, securing a number of high yielding assets and achieving timely exits. The team is well positioned to achieve positive growth in the future with a strong pipeline of stabilized assets in the United Kingdom and United States, and a demonstrated placement capability.

The Private Banking business achieved its business goals, productively marketing real estate and Sukuk investments, substantially boosting the Private Banking customer base, and increasing the asset book. As we move into 2018, the team remained focused on lowering the cost of funding, booking long term strong assets, and providing robust investment opportunities to investors.

Generally, the Group adapted to a difficult business backdrop by maximizing on sovereign lending opportunities in the form of Sukuk and fixed income securities, and expanding the business internationally to support the sourcing of international transactions.

The capital adequacy continued to reflect a healthy ratio of 21.4% at 31st Dec 2017 against a mandatory Central Bank of Bahrain requirement of 12.5%.

The Management and the Board remain confident that the Group is effectively positioned to thrive in the coming years and can steer the Bank to even higher levels of strategic business success.

On behalf of all the shareholders and the Board of Directors, I would like to take this opportunity to express my deep appreciation to the wise leadership of the Kingdom of Bahrain led by His Majesty 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 Salman bin Hamad Al Khalifa for their steadfast leadership and support. I am also grateful to the Board of Directors, Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, Bahrain Bourse, Dubai Financial Market (DFM), and Securities & Commodities Authority in UAE for their continued support and guidance. I thank our valuable shareholders and loyal customers whose ongoing backing drives our success. Finally, I express my sincere appreciation to the team at Al Salam Bank-Bahrain for their commitment and enthusiasm.

Yousif Abdulla Taqi
Director & Group CEO

Management Review of Operations and Activities

OPERATING ENVIRONMENT

Globally, 2017 was a tumultuous year marked by natural disasters, geopolitical tensions, and deep political divisions in many countries, however, on the economic front, the year ended fairly positively. GDP continued to accelerate across much of the world, in the broadest cyclical upswing since the start of the decade. Labour markets remained at full capacity in a number of key advanced economies with unemployment rates close to their natural rate. The U.S. dollar has appreciated slightly against a range of currencies following expectations of tighter monetary policy and fiscal stimulus, while the Sterling experienced a largest decline against the Euro over the quarter as a consequence of Brexit risks and uncertainty, with many economists and analysts still expecting further softness. The Federal Open Market Committee (FOMC) raised the Federal Funds Rate (FFR) by 25bps in December 2017 as well as raising their economic growth forecast for 2018 and have indicated rapid rise in the FFR.

BUSINESS ENVIRONMENT

The business environment posed a number of challenges and opportunities for Banks in Bahrain. The oil cap deal signed by key producers resulted in the Middle East and North Africa's (MENA) economy to expand at the weakest pace in over one year, while the end of the commodities super-cycle resulted in a significant decline in the economic prospects of the GCC region, resulting in lower growth opportunities for the banking systems and deteriorating liquidity.

In June, all central banks in the GCC followed the US Federal Reserve, which raised its target range for the federal funds rate by 25bps. Against this backdrop, analysts cut MENA's 2017 GDP growth outlook by 0.2 percentage points to 2.2%, representing the weakest expansion since the height of the financial crisis in 2009.

Rating downgrade by Standard & Poor in December to B+ has adversely impacted Bahrain's ability to attract funds from outside the region, while continued regional geopolitical instability remains a negative impact on business confidence and expansion strategies. Government borrowing from the local market has ensured liquidity remains tight, whilst fiscal measures made on subsides and government service charges has raised the cost of doing business, and as a result lead to higher non-performing loans (NPLs).

Despite this less than ideal business environment, opportunities have opened for Bahrain banks, particularly in terms of sovereign lending and in the financing of key regional infrastructure projects.

FINANCIAL PERFORMANCE

The Group performed well in 2017, maintaining a strong liquidity ratio and standing as one of the most efficient banks in Bahrain in terms of Cost-to-Income ratio.

The year saw the Group post positive results again with a net profit attributable to shareholders of the Bank for the year of BD 18.1 million for 2017, an increase of 12% on the previous year, (2016: BD 16.2 million), taking into consideration allowance for credit losses and impairment of BD 20.7 million (2016: BD 21.6 million).

The results can be attributed to steady growth in the core banking business, comprising corporate, commercial and retail banking. In particular, the retail business witnessed substantial growth. In addition to core banking business growth, improved operational efficiency, cost of funding, the booking of new financing and recovering delinquent impaired assets contributed to an enhanced bottom line.

The Group remained selective in financing in order to enhance asset quality with total assets of the Group standing at BD 1,589.3 million at 31 December 2017 (2016: BD 1,681.3 million). Despite decrease in total assets as compared to 31 December 2016, as a result of deployment of liquidity and enhanced efficiency, financing contracts recorded a net increase of BD 69.5 million or 10.4% net growth, to reach BD 736.8 million at 31 December 2017 (2016: BD 667.3 million). Investment in sukuk was lower than 31 December 2016. The Group's emphasis was to maintain high quality sovereign instruments and reduce its exposure to non-sovereign owing to deteriorated lending environment. Fiscal year 2017 witnessed multiple downgrades of corporates and sovereigns by various rating agencies.

The Group's total operating expenses decreased by 7.4% as a result of continued cost synergies post BMI Bank acquisition. Throughout the reporting period, the Group concentrated on recovering legacy debts and bringing new business in terms of financing and fee based income in our mission to generate non-fund based revenues. Liquidity was deployed into yielding assets, and efforts to further reduce the Group's cost income ratio were sustained. The massive increase in the retail portfolio underscores the success of the Group's strategic emphasis on sustainable income through retail growth which is a strategic focus that will continue in 2018.

CAPITAL ADEQUACY

Al Salam Bank-Bahrain B.S.C. continues to enjoy strong financial solvency and liquidity. In accordance with the Basel III capital adequacy guidelines, the Bank's capital adequacy continued to reflect a sound ratio of 21.4% as of the end of the year against a mandatory Central Bank of Bahrain minimum requirement of 12.5%.

ASSET QUALITY

The Group has early adopted FAS 30 (Impairment, Credit Losses and Onerous Commitments) effective 1 January 2017. The Bank continues to maintain a conservative approach in selecting new assets for financing and investments. As at the end of the year, 86% of the financing portfolio has been classified under the "good & satisfactory" category (2016: 83%). Total provisions for the financing portfolio was BD 57.7 million (2016: BD 46.7 million). The Asset Remedial and Collection Unit continued to closely monitor past due facilities.

BANKING ACTIVITIES

Retail Banking

Testament to the success of the Group's strategic efforts to position Al Salam Bank-Bahrain as the leading Shari'a-compliant Retail Bank in the Kingdom of Bahrain, the retail banking business performed extremely well in 2017 with substantial growth in the customer base and dramatic growth in both the liabilities and asset portfolios.

Business expansion continued with a full-service branch opened in Isa Town, bringing the Al Salam Bank-Bahrain network to 11 branches and 35 ATMs across the Kingdom.

In the Bank's continuous effort to make banking more convenient and further boost the customer experience, Al Salam Bank-Bahrain launched an upgraded Online Banking platform for its individual customers. The new version, which uses best-in-class technology and has added security enhancements, allows customers to execute their banking transactions, including online financing applications, as well as receiving information regarding their financial and non-financial transactions without the need to visit a branch. The upgraded online banking service, which was first offered to customers in 2007, offers a much wider range of new services and features; providing convenient and easily accessible banking services through a range of channels such as ATMs, the internet and through Al Salam Bank-Bahrain's mobile banking application.

The Group has also successfully completed the formal process to transfer the entire BMI Bank business to Al Salam Bank-Bahrain during the reporting period ended 31 December 2017. The Group's customers can now take advantage of a complete range of innovative and unique Shari'a-compliant financial products and services through an extended network of branches and ATMs.

Aligned with a steadfast focus on offering the best retail banking customer service in Bahrain, 2017 witnessed the signing of a Memorandum of Understanding (MoU) with The Bahrain Institute of Banking and Finance (BIBF) to conduct a specialized "Retail Banking Academy" training program for the employees of the Bank. The six months of comprehensive courses will further develop the Bank's human capital skills, knowledge and service quality with a prime focus on enhancing customer's banking experience.

Al Salam Bank-Bahrain was recognized with the "Critics' Choice – The Best Islamic Retail Bank in Bahrain" at the "3rd Islamic Retail Banking Awards (IRBA) 2017". The award is by itself a strong testament of the Bank's performance and continued excellence in the Kingdom's Islamic Retail Banking space.

With the rapid expansion of the Bank's Retail Banking business as a result of the successful consolidation of BMI Bank and Bahraini Saudi Bank, Al Salam Bank-Bahrain has completely transformed itself into a fully integrated, Shari'a-compliant Retail Bank and is fast becoming the preferred bank of customers for its differentiated and diversified product offerings, competitive terms, and exceptional customer experience.

Private Banking

The year 2017 was a challenging business environment for the banking sector in general, and Private Banking in particular due to persistent repercussions of the economic uncertainty faced during the year. At the local level, several key sectors such as real estate, construction, manufacturing and tourism have been adversely affected. Throughout this challenging period, the Department has withstood the turmoil in the financial markets by not only consolidating, but also enhancing its performance, focusing its efforts on maintaining the liability book and reducing cost of assets.

Despite less than ideal market conditions, the Private Banking business successfully achieved its business goals in 2017. The Department marketed real estate and sukuk investments valued at approximately USD 50 million, grew its team, substantially boosted the Private Banking customer base, and increased the asset book by USD 145 million. Throughout the reporting period, the department remained focused on lowering the cost of funding, booking long term strong assets, providing robust investment opportunities to the Bank's valued clients.

As a strategy, Private Banking will continue to be the leading Islamic provider of quality financial services and create sustainable value for all our stakeholders. Moreover, we will continue to provide Islamic financial solutions that fulfill the needs of our customers in various segments by offering our products and services through diverse access channels. The improvement in delivery channels has resulted in providing more efficient service to business customers. Private Banking continues to be a "one-stop-shop" solution provider for its clients overall banking requirements, which encompasses, not only all business products and services, but also Retail Banking, Investment Banking, Corporate Banking and Treasury service requirements.

Private Banking is committed to the highest level of professionalism, and the delivery of innovative products and services to our high net-worth customers by leveraging modern technology. The team is dedicated to conducting business with the highest level of integrity, transparency and corporate governance, ensuring confidentiality is maintained at all times.

Fiscal year 2018 will see the department explore new markets across GCC, with a focus on Saudi Arabia and the UAE.

Corporate Banking

Despite a lack of liquidity in the market, the Corporate Banking business performed well in 2017, substantially growing the client base, booking quality assets, and improving the overall level of service delivered to our valued corporate banking customers.

Aligned with the Bank's commitment to contribute to the growth of the local economy and to strengthen leadership in private enterprise development, Al Salam Bank-Bahrain signed a portfolio worth BD 60 million within Tamkeen's Sharia-compliant financing program "Tamweel+". Partnering in this Enterprise Finance Scheme, which offers financing at a competitive profit rate and stretched tenor to medium-sized and large enterprises in Bahrain, continues the long-term relationship between Tamkeen and Al Salam Bank-Bahrain which began in July 2010 and has contributed to the support of over 250 institutions in the Kingdom of Bahrain.

Another achievement during the reporting period was the growth of the Group's real estate development escrow agency services. Following on from the 2016 signings with leading real estate developer Diyar Al Muharraq for the 'Deerat Al Oyoun' Social Housing Project and Marassi Residences, Al Salam Bank-Bahrain signed new escrow account agreements with leading real estate developers for total value of projects of BD 133 million.

The escrow account agreement is aligned with the Group's focused efforts to provide pioneering Shari'a-compliant products and services tailored specifically to meet the changing needs of the citizens, the market place and the real estate sector.

In addition to building the corporate customer base, and maintaining the quality of the assets portfolio, the Corporate Banking team was segregated into 6 dedicated sectors teams. The segregation of team members into sector specializations supports the Department's mission to grow expertise across a diverse array of sectors and transform the customer's corporate banking experience.

Investment Banking

The Investment Banking department successfully navigated the numerous market challenges in 2017 by focusing on core yielding assets that satisfied the predominant investor appetite. In addition to providing attractive opportunities, the team secured yielding assets and successfully exited a number of transactions as it worked towards monetizing the Group's investment portfolio.

The Group continued to adopt a cautious approach in selecting investments in line with the Board's risk appetite focusing on stable income generating assets. The Group successfully provided a £21.8 million (BD 10.8 million) mezzanine facility in 2017 for the acquisition of a prime commercial real estate in the heart of Cardiff in the United Kingdom. The facility, backed by a recently completed property and fully leased on long-term contracts, is set to provide Al Salam Bank-Bahrain and its investors with attractive risk adjusted returns.

The Group's Global REIT Fund, launched in 2014 and converted into a global fund in August 2017, continued its strong positive performance in 2017 exceeding its benchmark by circa 3%. The Fund generated returns of 17% in 2017, ending with a Net Asset Value of USD 43.42 million (BD 16.4 million). During 2017, the Fund distributed more than USD 1.7 million (BD 640,900) in dividends to participating shareholders. The Department also successfully restructured an existing lease of an A330 aircraft for a period of eight years, and exited an equity stake in a Boeing 777 aircraft on lease to a Middle Eastern Airlines. The Investment Banking department is well positioned to achieve positive growth in the future.

Treasury & Capital Markets

Notwithstanding Bahrain's rating downgrade, a continued dearth of both liquidity and high-quality assets in the market, the Treasury & Capital Markets department had a very successful year. The Department effectively expanded the Banks Financial Institutions network, sourced more term financing agreement and liquidity transactions, and enhanced the different return aspects of the interbank and sukuk portfolio through timely exists of low yielding papers which were redeployed at higher yield transactions. The sukuk portfolio stands at approximately USD 1 billion and consists of local and international issuance.

During the reporting period, Treasury & Capital Markets secured new lines with international and regional counterparty banks underscoring the growing confidence in Al Salam Bank-Bahrain as a key and a preferred Bank to be transacting with in the Kingdom.

The Department has continued expanding the different Treasury offerings such FX services both on spot and on Wa'ad basis as well as offering the clients other hedging services such as Profit Rate Swap (PRS)

As the Department moves into 2018, the focus will remain on further enhancing the diversification of liquidity sources, an emphasis on term financing sources and more of sustainable fee-based transactions as well as continued Sovereign Sukuk deals.

Financial Institutions Group & International Banking

Although challenging market conditions prevailed, 2017 was a good year for the Financial Institutions (FI) Group & International Banking. The Department focused on serving and supporting the Bank's growing corporate and commercial businesses through its strong access to the Banks network regionally and globally. The Department played a vital role during the acquisition of BMI bank and worked closely with clients and correspondent banks regionally and globally, and managed to successfully migrate all relationships to the Group's portfolio. Al Salam Bank-Bahrain has one of the strongest correspondent banking network among its peers, which has effectively increased its ability to better serve its local and regional client base.

During 2017, the strategic focus was to continue partnering with strong counterparties regionally and globally in order to diversify the group's business activities and thus income stream as well as generating higher revenues and stable income. Al Salam Bank-Bahrain continues to maintain a cautious credit approach in doing FI and International business regionally.

As such, the Department continued to maintain strong relationships with financial institutions, Banks and NBFIs that are necessary to support our overall liquidity profile, balance sheet and business requirements. Such relationships have facilitated risk participation opportunities on the asset building side and sell down to our partner banks. The Bank has good access to special funding linked to trade Shari'a-compliant instruments. In 2017, the Bank enhanced cross border risk transactions on a selective basis in FI correspondent banking activities and in structured trade finance business that are supported by strong underlying trade instruments and self-liquidating transactions.

The Group has the required infrastructure in terms of operational capabilities and the relationship expertise to carry and facilitate complex trade transactions for our growing client base, thus enhancing the Group's ability to grow our business into new markets. This robust infrastructure supported the Group in generating a good level of revenues through the year.

The Bank has built strategic relationships with partners in the targeted markets and worked closely with Export Credit Agencies (ECA) in the region to reduce the overall commercial and political risk in trade transactions. This increased business volumes for customers that have a strong credit standing with a positive track record. Al

Salam Bank-Bahrain also finalized its arrangement to engage regional business development bodies, such as Arab Trade Finance programme (ATFP) with Global Trade Finance Program (GTFP) under IFC, which will increase our expanding business plans.

Operations

Fiscal year 2017 was a busy year for the Operations department as they managed the transfer of business activities from BMI Bank to Al Salam Bank-Bahrain while ensuring minimum inconvenience to the Group's valued customers.

In addition to the successful migration, which was completed on the 1st of September 2017, the Department supported the Group's various technology transformation projects, including the Migration of the core banking system and the launch of the upgraded Online Banking platform.

The Department remained abreast of the requirements for a dynamic back office technological environment; supporting the Group through the implementation and adaptation of new systems and the resulting testing and training that this entails. The Department was also engaged in the preparation and testing for the anticipated launch of CBB's upgraded RTGS settlement system through a VPN network, which is expected to enter service during Q1 2018.

Keeping pace with regulatory requirements also remained a priority during the reporting period with the introduction of Value Added Tax (VAT) and the Common Reporting Standards (CRS).

The Department will continue to refine existing processes, and apply cutting edge technologies to support our value chain and achieve optimal customer satisfaction.

Information Technology

The Information Technology department successfully unified the core banking systems of BMI Bank with Al Salam Bank-Bahrain, which was completed in the month of August, and the integration of all BMI Bank operations as of 1 September 2017.

During the year the Department also championed the implementation of the upgraded Online Banking system and implemented the process workflow automation for the Retail Banking business, in addition to further automating the Group's processes and procedures to enhance operational efficiency. The Department is set to continue in its mission to enhance the customer experience through the optimized and effective use of technology.

Corporate Governance and Risk Management

The Group continues to place the highest importance on effective corporate governance and robust risk management practices. As such, the year witnessed the enhancement of processes and procedures and the implementation of new methods to review, test, monitor and manage Group compliance.

Aligned with our mission to vision to establish the best corporate governance standards in the region, a more proactive role was established by the Group in terms of ensuring regulatory gaps are closed even before new regulations are implemented by regulatory bodies. The Group's regulatory review process was enhanced during the year, effectively increasing the review and monitoring scope, with transactions that were not being monitored previously, now being monitored. Furthermore, the regulatory review process is being fully automated to further enhance its effectiveness.

In terms of Risk management, the macro-economic and geopolitical factors, in addition to the integration of Al Salam Bank-Bahrain and BMI Bank, altered the risk exposure of the Bank. The Risk Management Policies and Procedures of BMI Bank and Al Salam Bank-Bahrain were integrated as was the merged entities core banking application system – effectively unifying the workflow. The integration of the system significantly reduced the operational risk exposure.

The Group also complied with PCIDSS (Payment Card Industry Data Security Standards) requirements, resulting in Al Salam Bank – Bahrain becoming a PCIDSS compliant certified institution. The Group opted for early adoption of FAS 30 standards whereby the computation of asset provisions changed from Incurred Loss Model to Expected Loss Model. Implementation of the FAS 30 standards involved extensive review of the Group's asset portfolio. The Group complied with Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) requirements as mandated by Central Bank of Bahrain
(CBB).

The Group's Corporate Governance and Risk Management function is dedicated to increased Risk Governance; leveraging technology to manage risk more effectively, enhancing transparency in Risk Reporting, improved follow up on potential non-performing assets, and the effective and ongoing implementation of an Enterprise

Wide Risk management framework.

Know Your Customer

Appropriate due diligence is rigorously conducted to ensure that the financial activities of the Group's customers are performed in accordance with the guidelines issued by the regulatory authorities. The Group strictly adheres to the Financial Crimes Module of the 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.

In 2017, the Group further enhanced monitoring and due diligence practices and successfully elevated the monitoring of all aspects of transactions including enhancing the automation of transaction monitoring. In addition to the upgrading of deposit and transfer slips, and the amending of account opening forms to ensure more transparency and the building of a solid customer profile, a number of KYC improvements were made to the online banking system during the reporting period. Anti-Money Laundering training was conducted on the Group's e-learning platform further enforcing a corporate culture where effective and responsible due diligence is the norm.

Human Capital

Al Salam Bank-Bahrain's Human Resources (HR) department works toward the full optimization of the Group's skilled manpower by shaping a nurturing corporate culture, and leveraging the best training and development tools available in the market.

Aligned with this dedication, the HR team successfully managed a number of initiatives and facilitated various value-added training sessions and workshops.

These comprised the automation of a number of HR services, including the introduction of a new HR Self-Service Portal which greatly enhanced staff convenience and as a result improved employee satisfaction.

The Bank has established a transparent, fair, and equitable Performance Management System whereby each employee's annual Performance Plan cascades from the Bank's Overall Business Objectives. A focused and detailed succession plan has been initiated in preparation for the second line of young leaders during the year and is earmarked for implementation in 2018.

11,469 training hours were held during the year with 322 employees taking part in various knowledge and skill development sessions. The training focus covered Regulatory Awareness sessions, and, aligned with Al Salam Bank-Bahrain's commitment to continuously enhance our customer's experience, a specialized 6 months "Retail Banking Academy" conducted by The Bahrain Institute of Banking and Finance (BIBF) designed to further develop the Bank's human capital skills, knowledge and service quality. The Bank is also committed to good corporate citizenship, underscoring this pledge, 23 young Bahrainis were hosted as part of the Annual Summer Internship Programme. The programme, which has been running for the last 11 years, hosted over 263 students from University of Bahrain as well as at other local and international private universities to date. The programme included a two-month-long intensive training and workshops within the Bank's various key departments.

The HR department will continue to work closely with the Group's Executive Management to implement industry best practices to support the Group as it moves ever closer to its vision of becoming the Kingdom's leading Islamic retail bank and employer of choice.

Corporate Governance Report

Corporate Governance Practice

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency and maintaining full compliance with the laws, rules and regulations that govern the Bank's business. Since 2010 when the new Corporate Governance Code was introduced by the Central Bank of Bahrain, the Bank has been implementing several measures to enhance its compliance with the corporate governance rules. A separate section on the status of compliance with the corporate governance rules and High Level Controls Module is included in this report.

Shareholders

Major Shareholders as of 31 December 2017

Name	Country of origin	No. of shares	% Holding
Bank Muscat (S.A.O.G.)	Oman	315,494,795	14.74
Overseas Investment S.P.C.	Bahrain	128,773,381	6.01
Al Rushd Investments W.L.L.	UAE	105,000,000	4.90
Tasameem Real Estate Company L.L.C.	UAE	102,264,615	4.78
Securities and Investment Company B.S.C. (c)	Bahrain	95,515,798	4.46
D S L Yachts W.L.L.	UAE	77,450,000	3.62
First Energy Bank B.S.C.	Bahrain	73,884,098	3.45
Royal Court Affairs, Sultanate of Oman	Oman	70,825,359	3.31
Sayed Hussain Ali Alawy AlQatary	Bahrain	45,334,313	2.12
Bond Investment Limited	UAE	38,300,000	1.79
Khalifa Buti Omear Al Muhairi	UAE	38,000,000	1.77
Al Sueban Company	Bahrain	26,250,000	1.23
Gimbal Holding Company S.P.C.	Bahrain	25,553,633	1.19
Buti Khalifa Buti Omear Al Muhairi	UAE	25,000,000	1.17
Global Express Company W.L.L.	Bahrain	25,000,000	1.17

Shareholding – 31 December 2017

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	925,482,687	22,729	43.23
1% to less than 5%	771,179,889	15	36.02
5% to less than 10%	128,773,381	1	6.01
10% to less than 20%	315,494,795	1	14.74
20% up to less than 50%	-	-	-
50% and above	-	-	-
Total	**2,140,930,752**	**22,746**	**100.00**

The outstanding ordinary share ownership of the Bank is distributed as follows:

Nationality	No. of shares	Ownership percentage
Bahraini		
Government	-	-
Institutions	272,504,424	12.73
Individuals	320,205,161	14.96
GCC		
Government	70,825,359	3.31
Institutions	471,657,938	22.03
Individuals	811,094,338	37.89
Other		
Institutions	2,665,957	0.12
Individuals	191,977,575	8.96
Total	**2,140,930,752**	**100.00**

BOARD OF DIRECTORS

The Board of Directors provides central leadership to the Bank, establishes its objectives and develop the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors determine the future of the Bank through the protection of its assets and reputation. They will consider how their decisions relate to "stakeholders" and the regulatory framework. Directors shall apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors shall be accountable to the shareholders of the Bank for the Bank's performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies including its customers, correspondents, employees, suppliers and local community. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank. In discharging that obligation, directors may rely on the honesty and professional integrity of the Bank's senior executives and external advisors and auditors.

Board Composition

The Board consists of members of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of Members with adequate professional background and experience. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to prior screening by the Remuneration, Nomination and Corporate Governance Committee and the Board of Directors as well as approval by the Shareholders and the Central Bank of Bahrain. The classification of "executive", "non-executive" and "independent non-executive" directors is as per definitions stipulated by the Central Bank of Bahrain.

Mandate of the Board of Directors and Directors' Roles and Responsibilities

The principal role of the Board of Directors (the Board), is to oversee the implementation of the Bank's strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board is also responsible for the consolidated financial statements of the Group. The Board ensures the adequacy of financial and operational systems and internal control, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated responsibility for overall management of the Bank to the Group Chief Executive Officer.

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes strategic planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority levels, appointment of auditors and review of the financial statements and financing activities including annual operating plan and budget, ensuring regulatory compliance and reviewing the adequacy and integrity of internal controls. All policies pertaining to the Bank's operations and functioning are to be approved by the Board.

Each Director holds the position for three years, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. The majority of ASBB Directors (including the Chairman and/or Vice Chairman) are required to attend the Board meetings in order to ensure a quorum.

Board Elections System

Article 26 of the Bank's Articles of Association provides the following:

1. The Bank shall be administered by a Board of Directors consisting of not more than fourteen members and not less than five members. The Board's term shall be three years which may be renewed.
2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to vote shall be forfeited for the percentage he has exercised to appoint his representative. If a percentage is left after exercising his right to nominate, he may use such percentage to vote.
3. Other members of the Board shall be elected by the General Assembly by secret ballot.

The Board of Directors shall elect, by secret ballot, a Chairman and one or more Vice Chairman every three years. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him.

Article 29 of the Article of Association covers the "Termination of Membership in the Board of Directors". It provides the following:

A Director shall lose his office on the Board in the event that he:

a. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;

b. Resigns his office by virtue of a written request;

c. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;

d. Is elected or appointed contrary to the provisions of the Law; and

e. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company.

Independence of Directors

An independent director is a director whom the Board has specifically determined, has no material relationship which could affect his independence of judgment, taking into account all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during 2017 that they have met all the conditions stipulated under Appendix A of the Corporate Governance Code.

In 2017, the members of the Board were:

Independent and Non-executive Directors

1. H.H. Shaikha Hessa bint Khalifa Al Khalifa - Chairperson
2. H.E. Shaikh Khalid Bin Mustahail Al Mashani - Vice Chairman
3. Mr. Hussein Mohammed Al Meeza
4. Mr. Salman Saleh Al Mahmeed
5. Mr. Essam Bin Abdulkadir Al Muhaidib
6. Mr. Mohamed Shukri Ghanem
7. Mr. Khalid Salem Al-Halyan
8. Mr. Sulaiman bin Mohamed Al Yahyai
9. Mr. Hisham Saleh Al Saie

Executive and Non-independent Directors

1. 1. Mr. Yousif Abdulla Taqi

All current Directors were elected for a three-year term on 24 February 2015.

Induction and Orientation for New Directors

When the new Board of Directors was elected on 24 February 2015, all directors were provided with information related to the Corporate Governance guidelines, the Board and Committee Charter, Committee and the Code of Conduct policies and other documents.

Evaluation of Board Performance

Members of the Board of Directors have been requested to assess their self-performance, how the Board of Directors' operate, evaluate the performance of each committee in light of the purposes and responsibilities delegated to it, their attendance and their involvement in the decision making process. The evaluation is focused on three main assessments:

- Evaluation of the Board of Directors' performance
- Evaluation of the Chairperson performance
- Evaluation of the performance of Committees and the Committees Chairpersons

The directors self-assessment results were either above expectation or satisfactory in most areas, including directors' skills and experience, understanding of the Bank's business and Board operations.

Remuneration of Directors

Remuneration of the Directors as provided by Article 36 of the Articles of Association states the following:

"The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of dividends of not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the Minister of Industry, Commerce and Tourism.

The Board, based upon the recommendation of the Remuneration and Nomination Committee and subject to the laws and regulations, determines the form and amount of director compensation subject to final approval of the shareholders at the Annual General Assembly meeting. The Remuneration and Nomination Committee shall conduct an annual review of directors' compensation."

Per the Directors' Appointment Agreement, the structure and level for the compensation for the Board of Directors consist of the following:

1. Annual remuneration subject to the annual financial performance of the Bank and as per the statutory limitation of the law.
2. The total amount payable to each Board member with respect to Board and Committee meetings attendance shall be taken into consideration when determining each member's annual remuneration.
3. The remuneration of the Board of Directors will be approved by the shareholders at the Annual General Assembly.

In addition to the above, Directors who are employees of the Bank shall not receive any compensation for their services as directors. Directors who are not employees of the Bank may not enter into any consulting arrangements with the Bank without the prior approval of the Board. Directors who serve on the Audit Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Bank.

The Board Charter

The Board has adopted a Charter which provides the authority and practices for governance of the Bank. The Charter was approved by the Board with the beginning of its term in 2015 and includes general information on the composition of the Board of Directors', classification of Directors', Board related Committees, Board of Directors' roles and responsibilities, Board of Directors' code of conduct, Board remuneration and evaluation process, insider dealing, conflict of interest and other Board related information.

Conflict of Interest

The Bank has a documented procedure for dealing with situations involving "conflict of interest" of Directors. In the event of Board or its Committees considering any issues involving "conflict of interest" of Directors, the decisions are taken by the full Board/Committees. The concerned Director abstains from the discussion/voting process. These events are recorded in Board/Committees proceedings. The Directors are required to inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to, other organizations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director. A report detailing the absentation from voting relating to conflict of interest is made available to shareholders upon their request.

Code of Conduct

The Board has an approved Code of Conduct for ASBB Directors. The Board has also approved a Code of Ethics for the Executive Management and staff that include "whistleblowing" procedures. The responsibility for monitoring these codes lies with the Board of Directors. The Directors' "Code of Conduct" is published on the Bank's website. The directors' adherence to this Code of Conduct is periodically reviewed.

Board Meetings and Attendances

The Board of Directors meets at the summons of its Chairperson or her Deputy (in event of his absence or disability) or if requested to do so by at least two Directors. According to the Bahrain Commercial Companies Law and the Bank's Articles of Associations, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2017, the Directors that were present at the Annual General Meeting (AGM) are detailed in the minutes of the 2017 Ordinary General Assembly Meeting and details of the Board meetings held at the Bank's premises as follows:

Board Meetings in 2017 - Minimum Four Meetings Per Annum

Members	16 Feb	3 May	12 Sep	13 Nov	10 Dec	11 Dec
H.H. Shaikha Hessa bint Khalifa Al Khalifa	√	√	√	√	√	√
H.E. Shaikh Khalid bin Mustahail Al Mashani	√	√	√	√	√	√
Mr. Hussein Mohamed Al Meeza	√	√	√	√	√	√
Mr. Salman Saleh Al Mahmeed	√	√	√	√	√	√
Mr. Essam Abdulkadir Al Muhaidib	√	√	√	√	√	√
Mr. Sulaiman Mohammed Al Yahyai	-	√	√	√	√	√
Mr. Mohamed Shukri Ghanem	√	√	√	√	√	√
Mr. Hisham Saleh Al Saie	√	√	√	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√	√	√	√
Mr. Yousif Abdulla Taqi	√	√	√	√	√	√

Directors' Interests

Directors' shares ownership in two-year comparison as on 31 December:

Members	No. of shares 2017	No. of shares 2016
H.H. Shaikha Hessa Al-Khalifa	**100,000**	100,000
Mr. Essam Bin Abdulkadir Al Muhaideb	**100,000**	100,000
Al Muhaideb Holding	**0**	4,314,522
Mr. Hussain Al-Meeza	**462,819**	462,819
Top Enterprise W.L.L	**0**	925,000
Mr. Salman Saleh Al Mahmeed	**100,000**	100,000
Mr. Yousif Abdulla Taqi	**1,000,000**	818,734
H.E. Shaikh Khalid bin Mustahail Al Mashani	**0**	0
Mr. Sulaiman Al Yahyai	**0**	0
Mr. Hisham Al Saie	**0**	0
Mr. Mohammed Ghanem	**0**	0
Mr. Khalid Al Halyan	**10,000**	10,000

Related Entities

The following shareholder is related to Mr. Hussein Al Meeza:

- *Top Enterprises L.L.C. sold 925,000 shares*

The following shareholder is related to Mr. Essam Al Muhaideb:

- *Al Muhaideb Holding sold 4,314,522 shares*

Approval Process for Related Parties' Transactions

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the unanimous approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements under note 29 - related party transaction.

Material Transactions that require Board Approval

While any transaction above BD 5 million and up to BD 10 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD 10 million requires the approval of the Board of Directors of the Bank. In addition, when acquiring 20% of a company Board approval is required regardless of the amount.

Material Contracts and Financing Involving Directors

A financing facility has been provided to Mr. Mohamed Shukri Ghanem. The details of the facility is as follows:

- Pri*nciple amount: BD 15,000*
- *Nature of facility: Credit Card*
- *Value date: 24 July 2017*
- *Purpose* of financing: Personal needs

Directorships held by Directors on Other Boards

The High Level Controls Module provides that no director should hold more than three directorships in Bahrain public companies. All members of the Board of Directors met this requirement.

Board Committees

The Board level committees are formed, and the Board of Directors appoints their members, at the beginning of each Board term. They are considered the high level link between the Board and the Executive Management. The objective of these committees is to assist the Board in supervising the operations of the Bank. The Committee reviews issues that are submitted by the management to the Board and makes recommendations to the Board for their final review.

Certain information relating to the work of certain Board Committees during the year 2017, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee is enclosed in this report.

The full texts for the Terms of Reference for Board Committees (Executive Committee, Audit and Risk Committee, and Remuneration, Nomination and Corporate Governance Committee) are published on the Bank's website.

Executive Committee

Committee Meetings in 2017 - Minimum four meetings per annum.

Four Committee meetings were held during 2017 as follows:

Members	6 Feb	25 Apr	20 June	16 Oct
Mr. Hussein Mohamed Al Meeza (Chairman)	√	√	√	√
Mr. Essam Abdulkadir Al Muhaidib	√	-	√	√
Mr. Sulaiman Mohammed Al Yahyai	√	√	√	√
Mr. Mohamed Shukri Ghanem	√	√	√	√
Mr. Yousif Abdulla Taqi	√	√	√	√

Summary of responsibilities: Deputizing the Board on matters pending decisions between Board meetings, considering and reviewing management's operational reports and regulatory and strategic developments, reviewing and approving credit and market risk proposals in excess of the authority limits of the relevant committees, reviewing management's recovery procedures for problem facilities and requirements for provisioning.

Audit and Risk Committee

Committee Meetings in 2017 - Minimum four meetings per annum.

Four Committee meetings were held during 2017 as follows:

Members	7 Feb	24 Apr	24 Aug	24 Oct
Mr. Salman Saleh Al Mahmeed (Chairman)	√	√	√	√
H.E. Shaikh Khalid bin Mustahil Al Mashani	√	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√	√

Summary of responsibilities: Reviews the internal audit program and internal control system, considers major findings of internal audit review, investigations and management's response, ensures coordination among internal and External Auditors, monitors trading activities of key persons and ensures prohibition of the abuse of inside information and disclosure requirements and reviews the periodic risk reports.

Remuneration, Nomination and Corporate Governance Committee

Committee Meetings in 2017 - Minimum two meetings per annum.

Four meetings were convened during 2017:

Members	16 Feb	23 May	12 Oct	11 Dec
H.H. Shaikha Hessa bint Khalifa Al Khalifa (Chairman)	√	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√	√
Mr. Hisham Saleh Al Saie	√	√	√	√

Summary of responsibilities: Make specific recommendations to the Board of Directors' on both remuneration policy and individual remuneration packages for the Chief Executive Officer and other senior managers. Evaluate senior management's performance in light of the Bank's corporate goals. Make recommendations to the Board from time to time as to the changes the committee believes to be desirable to the size of the Board or any committee of the Board.

Oversees and monitors the implementation of the governance policy framework. Reviews on an annual basis the Bank's compliance with the respective Corporate Governance rules and regulations as well as the Board's and subcommittees' charters. Reviews on an annual basis the Shari'a Supervisory Board's compliance with its approved charter.

SHARI'A SUPERVISORY BOARD

Al Salam Bank-Bahrain is guided by a Shari'a Supervisory Board consisting of five distinguished scholars. The Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a.

The Board meets at least 4 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

EXECUTIVE MANAGEMENT

The Board delegates the authority for management of the Bank to the Group Chief Executive Officer. The Group CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Fatwa and Supervisory Board.

Senior Managers' Interests

The number of shares held by the senior managers, in two-year comparison, as on 31 December is as follows:

Members	Shares	
	2017	2016
Dr. Mohammed Burhan Arbouna	**336**	336
Mr. Essa Abdulla Bohijji	**118,995**	118,995
Total	**119,331**	119,331

Management Committees

The Chief Executive Officer is supported by a number of management committees each having a specific mandate to give focus to areas of business, risk and strategy. The various committees and their roles and responsibilities are:

Committee	Roles and responsibilities
Credit/Risk Committee	Recommending the risk policy and framework to the Board. Its Primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.
Asset Liability Committee	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
Investment Committee	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.
Technology Steering Committee (TSC)	TSC oversees the overall Information Technology (IT) function of the bank. The committee members consist of senior management, business heads and chaired by the Chief Operating Officer. The committee reviews major IT projects and sets their priority. It supervises the implementation of the approved IT annual plan are met within set deadlines and budgetary allocations.

Executive Management Compensation

The performance bonus of the Chief Executive Officer is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Chief Executive Officer for review and endorsement by the Remuneration and Nomination Committee subject to Board approval.

COMPLIANCE

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the respective regulators.

Due diligence is performed to ensure that the financial activities of the Bank's customers are performed in accordance with the guidelines issued by the regulatory authorities.

The Bank continuously endeavors to enhance the Compliance and Anti Money Laundering systems. The Bank has recently automated the AML monitoring process through a well-known system.

The Bank adheres to the 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 complied with Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) requirements as mandated by the Central Bank of Bahrain (CBB).

REMUNERATION AND APPOINTMENT OF THE EXTERNAL AUDITORS

During the Annual General Assembly Meeting held on 8 March 2017, the shareholders approved the appointment of Ernst & Young as external auditors for the year ending 31 December 2017 and authorized the Board of Directors to determine their remuneration.

INTERNAL CONTROL

Internal control is an active process that is continually operating at all levels within the Bank.

The Bank has established an appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on a periodic basis. Every employee of the Bank participate in the internal control process and contribute effectively by identifying risk at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the senior management and corrective actions are taken.

KEY PERSONS POLICY

The Bank has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares, with the primary objective of preventing abuse of inside information. Key Persons are defined to include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' Policy is entrusted to the Board's Audit Committee.

The latest Key Persons' Policy is posted on the Bank's website.

EMPLOYEE RELATIONS

Al Salam Bank-Bahrain is committed to promoting a diverse and inclusive environment, and encourages understanding of the individuality and creativity that each employee uniquely brings to the Bank. Employees are hired and placed on the basis of ability and merit. Evaluation of employees is maintained on a fair and consistent basis.

In line with the Bank's policy of being on equal opportunity firm and as part of Central Bank of Bahrain's Rulebook and Corporate Governance requirements, the Bank shall not employ relatives of employees up to the 4th degree.

Existing employees must alert the Human Resources of any relatives or relationship of other employees or candidates being interviewed. Failure to do so and the employee will subject to disciplinary action pursuant to the Law No. 36 of 2012 Promulgation of the Labour Law in the Private Sector and the Bank's Disciplinary Guidelines.

COMMUNICATION POLICY

The Bank recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall goals for communication, the Bank follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

The Bank uses modern communication technologies in a timely manner to convey messages to its target groups. The Bank shall reply without unnecessary delay, to information requests by the media and the public. The Bank strives in its communication to be as transparent and open as possible while taking into account bank confidentiality. This contributes to maintaining a high level of accountability. The Bank also proactively develops contacts with its target groups and identifies topics of possible mutual interest. The Bank reinforces clarity by adhering to a well-defined visual identity in its external communications.

The Bank's formal communication material is provided in both Arabic and English languages. The Bank maintains a Legal Policy published on its website: www.alsalambahrain.com that includes terms and conditions on the use of information published on the site.

The annual reports and quarterly financial statements, Board Charter and Corporate Governance report are published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Bank regularly communicates with its staff through internal communications to provide updates of the Bank's various activities.

Consumer / Investor Awareness Programmes and Tools

To fulfill its goals for external communications, promoting its products and communicating with its stakeholders, ASBB employs a variety of communications tools. The most important of them are listed below:

Customers	Seminars, bilateral contacts, website, newsletter, media campaigns, corporate presentations, speeches, publications, brochures, leaflets, Radio and TV advertising, SMS etc.
Investors	Publications, road shows (mostly bilateral contacts), Internet, media, investor presentations, wire services, brochures, leaflets, advertising etc.
Regulatory & Governmental Authorities	Institutional contacts, seminars, visits, bilateral contacts, Internet, newsletter, media, publications (in particular the Annual Report), brochures, leaflets, etc.
Media Communications	Press releases, interviews, speeches, background seminars, etc.
General Public Communications	Media, other key target groups as multipliers.

WHISTLE BLOWING POLICY

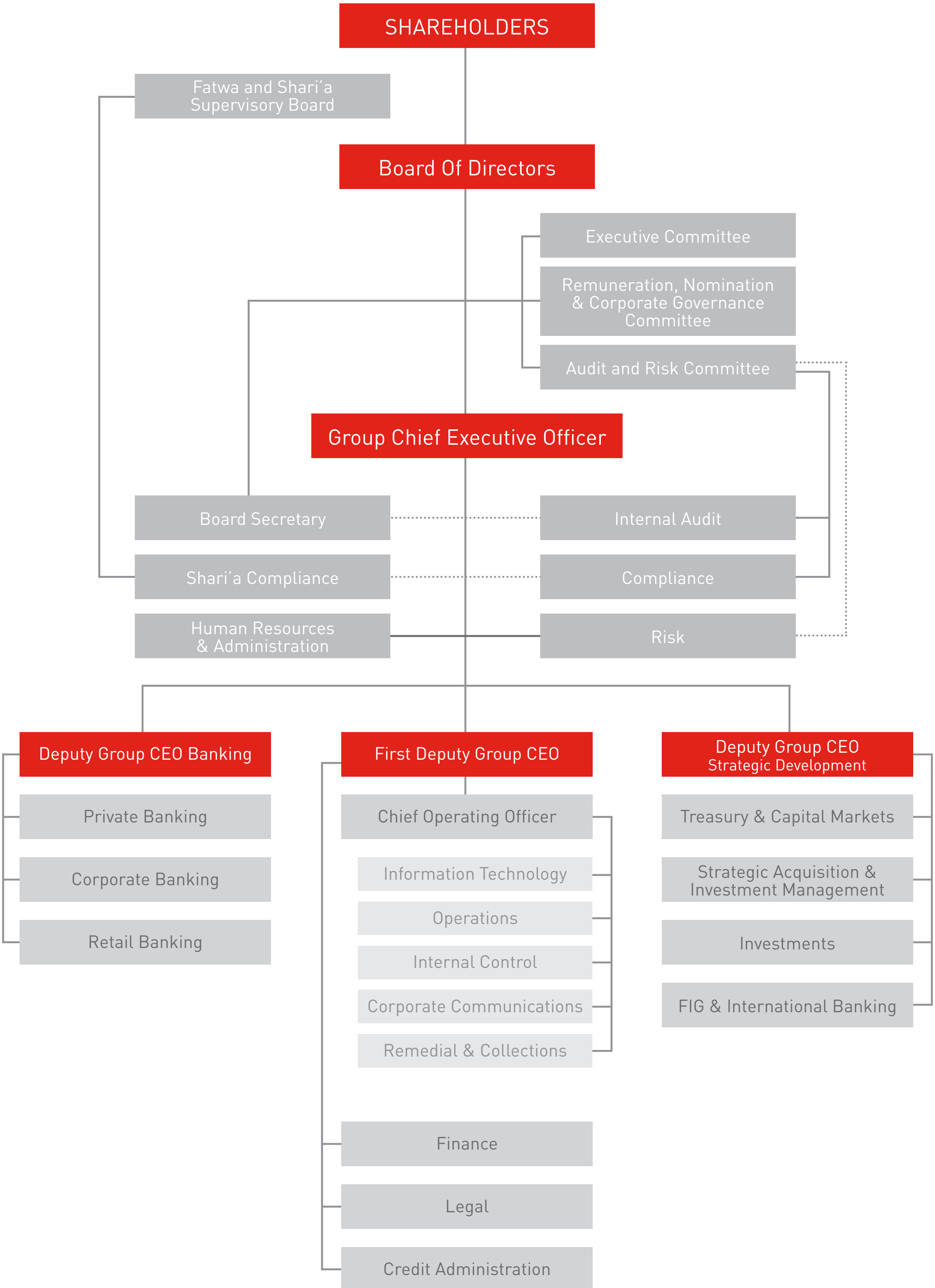
The Bank has a whistle blowing policy with designated officials of the Bank to whom the employee can approach. The policy provides adequate protection to employees for any reports in good faith. Reports are escalated to the Group Chief Executive Officer or an official delegated by him for appropriate action.

The Board's Audit Committee oversees the implementation of this policy.

The directors have adopted the following code of conduct in respect of their behavior:

- To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank's business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;
- Not to agree to the business of the Bank being carried out, or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank's creditors;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;
- Not to enter into competition with the Bank;
- Not to demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not to take advantage of business opportunities to which the Bank is entitled for himself/ herself or his/her associates;
- Report to the Board any potential conflict of interest, and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject of proposed conflict of interest.

ORGANIZATIONAL STRUCTURE



CHANGES IN MANAGEMENT AND REPORTING LINES DURING 2017

Direct Reports to the Group CEO

- Dr. Anwar Al Sada – First Deputy Group CEO
- Mukundan Raghavachari – Deputy Group CEO - Strategic Development
- Anwar Murad – Deputy Group CEO - Banking
- Muna Al Balooshi – Group Head of Human Resources and Administration
- Seema Al Kooheji – Board Secretary (Indirect)

Direct Reports to First Deputy Group CEO

- Abdulkarim Turki – Chief Operating Officer
- Elias Murad – Group Head of Credit Administration
- Qassim Taqawi – Group Head of Legal
- Khalid Jalili – Acting Head of Finance

Direct Reports to Deputy Group CEO - Banking

- Ali Qassim – Head of Private Banking
- Arif Janahi – Head of Corporate Banking
- Mohammed Buhijji – Head of Retail Banking

Direct Reports to Deputy Group CEO - Strategic Development

- Ahmed Saif – Group Head of Strategic Acquisition & Investment Management
- Talal Al Mulla – Chief Investments Officer
- Hussain Abdulhaq – Head of Treasury & Capital Markets
- Sadiq Al Shaikh – Head of FIG & International Banking
- Harish Venkatakrishnan – Head of Investment Administration

SUBSEQUENT TO YEAR END CHANGES IN BOARD OF DIRECTORS

The Board of Directors' completed their 3 years term from 2015 to 2017. The re-election of Board of Directors was conducted in the AGM held on 22 March 2018. The new Board of Directors for the upcoming term are as listed below:

- Mr. Khaleefa Butti Omair Al Muhairi
  Chairman - Non-executive
- H.E. Shaikh Khalid bin Mustahail Al Mashani
  Vice Chairman - Non-executive
- Mr. Matar Mohamed Al Blooshi
  Board Member - Non-executive
- Mr. Hussain Mohammed Al Meeza
  Board Member - Independent
- Mr. Salim Abdullah Al Awadi
  Board Member - Independent
- Mr. Alhur Mohammed Al Suwaidi
  Board Member - Independent
- Mr. Khalid Salem Al Halyan
  Board Member - Independent
- Mr. Zayed Ali Al-Amin
  Board Member - Independent
- Mr. Salman Saleh Al Mahmeed
  Board Member - Independent
- Mr. Khalid Shehab Eddin Madi
  Board Member - Independent

PENALTIES

During 2017: An amount of BD 850 was paid as penalty to the Central Bank of Bahrain (CBB) for failure to comply with CBB requirements relating to:

- One unclean account in BCRB systems (Credit Bureau)
- Two reports required by section BR-2.2.4 of the CBB Rulebook which were filed late by one day.

Remuneration Policy

CORE REMUNERATION POLICY

The fundamental principles underlying our remuneration policy which has been approved by the Board of Directors and the shareholders of the bank are:

- The composition of salary, benefits and incentives is designed to align employee and shareholder interests;
- Remuneration determination takes into account both financial and non-financial factors over both the short and longer-term;
- Emphasis is on performance evaluations that reflect individual performance, including adherence to the Bank's risk and compliance policies in determining the total remuneration for a position;
- The Bank has set a fixed remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus will be awarded purely at the discretion of the Board's Remuneration, Nomination and Corporate Governance Committee (RNC) in recognition of the employees exceptional effort in any given performance period;
- The Bank shall have a well-defined variable pay scheme in place, to support the RNC, should they decide to pay variable pay or bonus in any performance period;
- Variable pay will be determined based on achievement of targets at the Bank level, unit level and individual level;
- Variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal:
    - Performance metrics for applicable business units are risk-adjusted where appropriate;
    - Individual award determinations include consideration of adherence to compliance-related goals.
- The remuneration package of employees in Control and Support functions are designed in such a way that they can function independent of the business units they support. Independence from the business for these employees is assured through:
    - Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviours while remaining competitive with the market;
    - Remuneration decisions are based on their respective functions and not the business units they support;
    - Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function;
    - Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments.
- Both qualitative and quantitative measures will be used to evaluate an individual's performance across the Bank.

The Bank reviews the salaries and benefits periodically, with an objective of being competitive in the market places, based on salary surveys and market information gathered through secondary sources.

The Bank does not provide for any form of severance pay, other than as required by the Labour Law for the Private Sector (Law No.36 of 2012 of the Kingdom of Bahrain), to its employees.

This document has been prepared in accordance with CBB remuneration disclosure requirements for Islamic Banks under High Level Controls Module. These requirements are in addition to the disclosures published in the Annual Report.

REGULATORY ALIGNMENT

The Bank reviewed and revised the remuneration policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants. Key regulatory areas and the Bank's response are summarized below:

Regulatory Area	Bank's practice
Governance	The composition of RNC is as required by the CBB remuneration guidelines and is chaired by an Independent Director. The RNC charter has been revised in line with the requirements of the CBB guidelines and the Committee will be responsible for the design, implementation and supervision of the remuneration policy. The aggregate fees / compensation paid to RNC members for 2017 amounted to BD 30,000 (2016: BD 22,500). The Committee utilized the services of an external consultant to redesign and implement the revised remuneration policy aligned to the CBB guidelines on remuneration.
Risk focused remuneration policy	The Bank has set the Fixed Remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus is being paid purely at the discretion of the RNC in recognition of the employees exceptional effort in any given performance period. Should the RNC decide to award Variable Pay, it will be determined based on risk adjusted targets set at the Business unit level aggregated to the Bank level. The variable pay for the CEO, senior management in Business units and the Material Risk takers would be higher as compared to the fixed pay subject to achieving the risk adjusted targets both at the business unit and the bank level. For staff in Control and Support functions, the pay mix is structured as more fixed and lesser variable. Further the variable pay, for staff in Control and Support Functions, is based on their units target and individual performance and not linked to bank's performance.
Capital and Liquidity	The bonus or variable pay computation process is designed in such a way to ensure that it does not impact the Capital and Liquidity as there are validation checks prior to approval of the RNC. The validation checks are the bonus pool as compared to the realized profit, impact on capital adequacy computed as per Basle III guidelines and as compared to the total fixed pay.
Deferral and share linked instruments	The Bonus for the CEO, his deputies and Material Risk Takers and Approved Persons as per CBB and those whose total remuneration exceeds the regulatory threshold has a deferral element and share - linked payment. Phantom or Shadow shares are offered to such staff. The deferral arrangements are as follows: CEO, his deputies and top 5 Executive Management members(in terms of total remuneration) in Business units: • 40% of the variable pay will be paid in cash at the end of the performance period; and • The balance 60% will be deferred over a period of 3 years with 10% being cash deferral and 50% being phantom or shadow shares and the entire deferred variable pay will vest equally over a 3 – year period. For all other employees in Business units and Approved Persons in Control and Support Functions and whose total remuneration exceeds the regulatory threshold: • 50% of the variable pay will be paid in cash at the end of the performance period; and • 10% in the form of phantom or shadow shares at the end of the performance period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date. • The balance 40% will be deferred over a period of 3 years and paid in the form of phantom or shadow shares and vests equally over the 3 year period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date.
Claw back and Malus	The Bank has introduced claw - back and malus clauses whereby the RNC has the right to invoke these clauses under certain pre-defined circumstances where in the bank can claw-back the vested as well as the unvested bonus paid or payable to a staff.

REMUNERATION COMPONENTS

It is the Bank's intent to have a transparent, structured and comprehensive remuneration policy that covers all types of compensation and benefits provided to employees.

The remuneration policy provides a standardized framework for remuneration covering employees at all levels of the Bank.

Remuneration offered by the Bank shall reflect the Bank's objective of attracting and retaining the desired level of talent from the banking sector.

Remuneration will be at a level, which will be commensurate with other Banks of similar activity in Bahrain, and will allow for changes in the cost of living index. The compensation package shall comprise of basic salary and benefits and discretionary variable pay. The following table summarizes the total remuneration:

Element of Pay	Salary and Benefits
Rationale	To attract and retain the desired level of talent.
Summary	Reviewed annually. Benchmarked to the local market and the compensation package offered to employee is based on the job content and complexity. The Bank offers a composite fixed pay i.e. it is not split as Basic and Allowances but is paid as one lump sum. The benefits are aligned to the local market practice.

Element of Pay	Variable Pay/Bonus
Rationale	To incentivize the achievement of annual targets set at the bank level and at the Business unit levels and thereby also make sure that senior management get substantial portion as variable pay which is linked to performance. The Variable pay is deferred to ensure that the management's interests are aligned to the shareholder value and to align time horizon of risk.

Summary

The Bonus pool is determined based on the bottom up approach i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the bank level.

The basis of payment of bonus would be as follows:

CEO and Senior Management	Base multiple * Bank score * Individual score
Business units	Base multiple * Bank score * Unit score * Individual score
Control & Support units	Base multiple * Unit score * Individual score

Computation of Variable Pay - Business Units

Beginning of the financial year:
Targets are set for the Business units and are aggregated to the Bank level target. In setting targets certain bank wide risk parameters which include capital, liquidity, profit and qualitative measure such as reputation risk and the bank and unit specific KPIs shall be considered. For achieving this target, total Bonus pool is set based on monthly multiples of salary across the bank. The Key feature is that bonus is self-funding and the different levels of targets are not just % increase in profits but profits adjusted for additional bonus. This Bonus Pool is subject to additional checks for its impact on the capital adequacy, as a proportion of net profit and realized profit and as a proportion of the total fixed pay in any given financial year.

At the end of the financial year:
The actual results are evaluated against targets, considering the risk parameters matrix and adjustments if any to the unit score or the banks score as appropriate are made and the bonus pool is revised accordingly.

The actual bonus pool is approved by the RNC and the individual Bonus payments are as per the scoring matrix.

Computation of Variable Pay – Control and Support Units
The Unit targets as set out and agreed with the RNC in the beginning of each evaluation period will be the base for Variable pay to be paid. Except in the case of bank making a loss, the variable pay for the staff in the Control and Support unit, would be payable based on the Unit targets and the individual performance.

Base Multiples are set for each employee level in each Control and Support unit. The achievement of unit target is assigned a weight of 1 and scored based on the level of actual results achieved.

The individual performance score is based on the individual rating and the score is set to vary between 0 up to a maximum of 1.

The Summary of the Variable pay process is:

Links reward to bank, business unit and individual performance.

Target setting process considers risk parameters which are both quantitative and qualitative such as reputation.

Aligned to time horizon of risk the bonus has a deferral element and a share linkage to align the employee's interest with that of the shareholders.

Bonus can be lesser or nil if the bank or business units do not achieve the risk adjusted targets or make losses. Post risk assessment is carried out to ensure that in case of material losses or realization of less than expected income which can be attributed to employee's actions the claw back or malus as appropriate is invoked.

DETAILS OF REMUNERATION

(a) Board of Directors

Amounts in BD	2017	2016
Attendance fee and travel expenses	**294,715**	255,178
Remuneration paid	**415,000**	389,000
ASBB subsidiaries' Board remuneration, attendance fees and expenses	**13,195**	6,409

(b) Employees

31 December 2017	Amounts in BD thousands						
			Variable Upfront		Variable deferred		
	No. of staff	Fixed	Cash	Non-cash	Cash	Non-cash	Total
Approved person business line	11	1,858	520	-	110	550	3,038
Approved person control & support	11	752	165	10	-	41	968
Other material risk takers	8	384	101	4	-	15	504
Other employess - Bahrain operations	293	5,858	1,243	-	-	-	7,101
Other employees - overseas	23	150	9	-	-	-	159
	346	9,002	2,038	14	110	606	11,770

31 December 2016	Amounts in BD thousands						
			Variable Upfront		Variable deferred		
	No. of staff	Fixed	Cash	Non-cash	Cash	Non-cash	Total
Approved person business line	10	1,529	453	-	98	488	2,568
Approved person control & support	13	753	181	15	-	58	1,007
Other material risk takers	11	429	114	3	-	14	560
Other employess - Bahrain operations	297	6,545	866	-	-	-	7,411
Other employees - overseas	2	78	12	-	-	-	90
	333	9,334	1,626	18	98	560	11,636

Fixed remuneration includes all compensation and benefits that are due to employees based on contractual arrangements . There were no sign-on awards made during the year.

Severance payments amounted to BD 402,000 and the highest severance payment during the year amounted to BD 51,000. During the year there were eighteen severance payments.

Included in the above, remuneration received by approved person and material risk takers from SPVs / project companies managed by the Bank amounted to BD 31,000 (2016: BD 45,000).

Deferred Performance Bonus Awards

31 December 2017	**Cash BD '000**	**No. of shares**	**Shares value BD '000**	**Others BD '000**	**Total BD '000**
Awards					
Balance as of 1 January 2017	**203**	**8,632,133**	**1,297**	**-**	**1,500**
Awarded during the year - 2017	**110**	**4,369,092**	**620**	**-**	**730**
Exercised / sold / paid during the year	**(41)**	**(2,001,440)**	**(298)**	**-**	**(176)**
Risk Adjustment	**-**	**-**	**-**	**-**	**-**
Balance as of 31 December 2017	**272**	**10,999,785**	**1,619**	**-**	**2,054**

31 December 2016	Cash BD '000	No. of shares	Shares value BD '000	Others BD '000	Total BD '000
Awards					
Balance as of 1 January 2016	124	-	-	-	124
Awarded during the year - 2016	98	9,161,664	1,376	-	1,474
Exercised / sold / paid during the year	(19)	(529,530)	(79)	-	(98)
Risk Adjustment	-	-	-	-	-
Balance as of 31 December 2016	203	8,632,133	1,297	-	1,500

Risk Management & Compliance

At Al Salam Bank-Bahrain, our success is largely dependent on how efficiently we identify, measure, control and manage risks. Hence, we view risk management as a core competency from a strategic point of view and the Basel Accord as a catalyst to the successful implementation of the pillars of risk management in line with industry best practice.

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within the Board approved risk appetite and the returns are commensurate with the risks taken. The objective is creating shareholder value through protecting the Group against unforeseen losses, ensuring maximization of earnings potential and opportunities vis-à-vis the Group's risk appetite and ensuring earnings stability.

With this in mind, the Bank has focused its efforts on establishing effective and practical risk management and compliance frameworks taking into consideration local and international best practices, the requirements of the Central Bank of Bahrain and the Basel Accord.

Risk Management Framework

The risk management framework defines the risk culture of Al Salam Bank–Bahrain and sets the tone throughout the Group to practice the right risk behavior consistently to ensure that there is always a balance between business profits and risk appetite.

The risk management framework achieves this through the definition of the Group's key risk management principles covering credit, market, operational, information security, strategic and reputation risks. Moreover, the framework further covers the roles and responsibilities of the Board, risk management group and senior management towards risk management. The individual components of the framework capture the risk assessment methodology adopted, risk limits, the risk management information systems and reports, as well as the Group's approach to capital management.

The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain supervision. In addition, business and support groups carry out periodic risk control self-assessments.

As a result, the risk management framework creates an alignment between business and risk management objectives.

CAPITAL MANAGEMENT

The cornerstone of risk management framework is the optimization of risk-reward relationship against the capital available through a focused and well monitored capital management process involving risk management, finance and business groups.

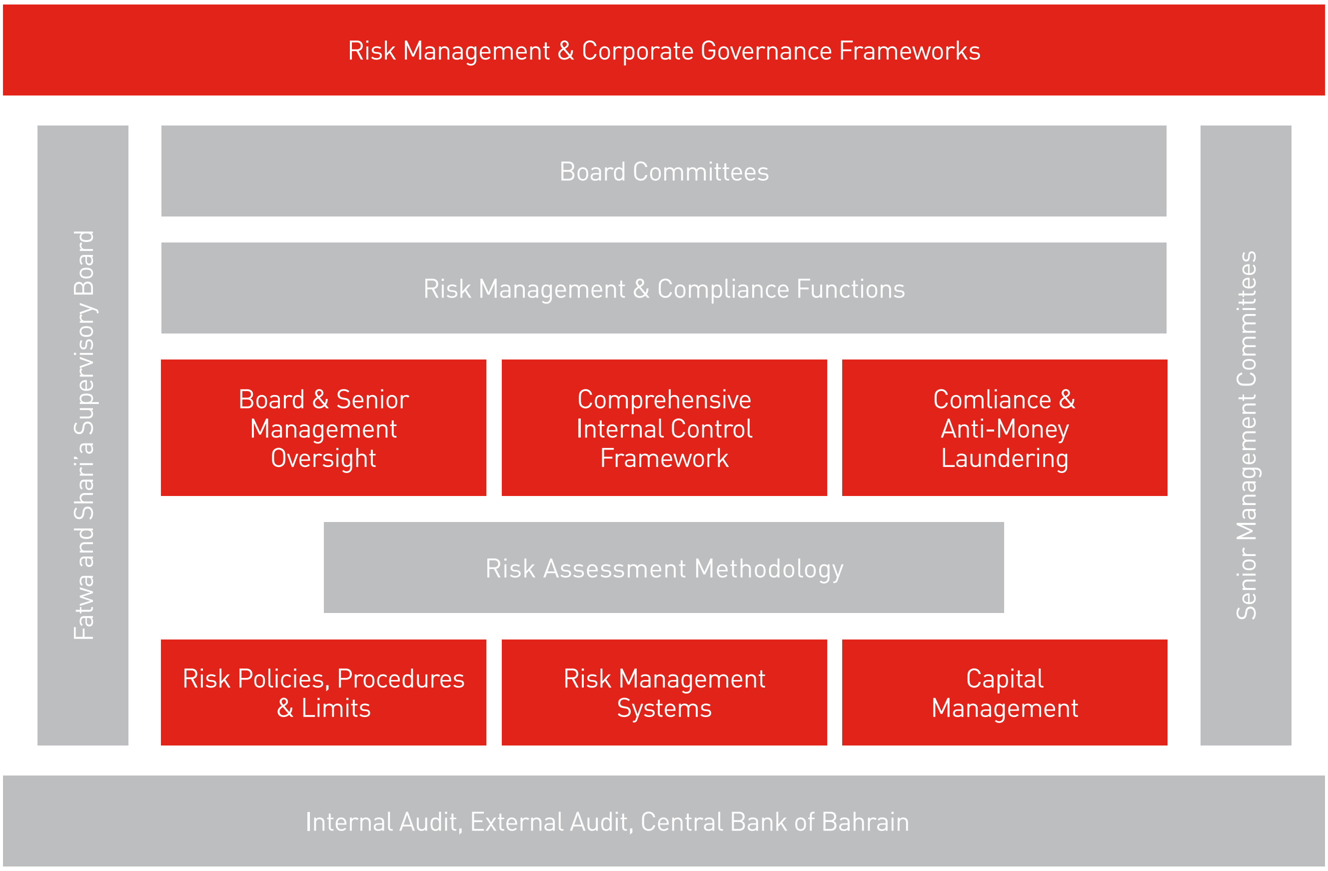
Corporate Governance

The risk management framework is supported by an efficient Corporate Governance Framework discussed on pages 42 to 55.

Risk Ownership

The implementation of the risk management framework Group-wide is the responsibility of the Risk Management Department under the supervision of the Group Chief Executive Officer and Board Audit and Risk Committee. Ownership of the various risks across the Group lies with the business and support heads, being the first line of defense, and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework.

Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for mitigating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.



Compliance & Anti-Money Laundering Department

The Bank has established an independent and dedicated unit to coordinate the implementation of compliance and Anti-Money Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading. In line with its commitment to combat money laundering and terrorist financing, Al Salam Bank- Bahrain through its Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively. The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF recommendations and Basel Committee papers.

All inward and outward electronic transfers are screened against identified sanction lists issued by certain regulatory bodies including the UN Security Council Sanctions Committees and US Department of the Treasury - OFAC, in addition to those designated by the Central Bank of Bahrain.

The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/ or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce and Bahrain Bourse.

The Bank has formulated appropriate policies and implemented the requirements of Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) as required by the regulators. The due diligence and reporting requirements have been complied with.

Corporate Social Responsibility

The Bank is committed to fulfilling its obligations as a good corporate citizen in the communities in which it operates. We endeavor to support the Bahrain Government in its efforts to enhance the quality of life of the people of the Kingdom of Bahrain.

Al Salam Bank-Bahrain underscore this commitment to our community by supporting initiatives that add value to the Island's housing, education and health infrastructure, as well as encouraging future economic growth and prosperity through supporting entrepreneurship and the development of our youth.

During the year, charitable donations were made to medical facilities and other charities that care for the less fortunate and supported cultural initiatives in order to preserve the traditions of the Kingdom for generations.

Fatwa and Shari'a Supervisory Board Report to the Shareholders

In the name of Allah, the Beneficent, the Merciful
All Praise is due to Allah, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Muhammad

The Shari'a Fatwa and Supervisory Board ("the Board") has reviewed the Bank's transactions during the year, as well as the Consolidated Statement of Financial Position and Consolidated Income Statement for the year ended 31 December 2017. The Board Position and Consolidated Income Statement submitted its annual report as follows:

Firstly:

1. The Board has supervised the Banks' activities and transactions during the year, and carried out its role by advising the various departments to adhere to the Shari'a principles and the Board's legal opinions in respect to those activities and transactions. The Board held, for this purpose, several meetings with the Banks' management. The Board hereby confirms the Bank's management keenness to adhere to the Shari'a principles and the Board's legal opinions.

2. The Board has studied the transactions presented to it during the year, and approved the contracts and documents relating to those transactions. The Board responded to questions and queries and issued appropriate decisions and legal opinions relevant to the transactions. The decisions and legal opinions were circulated to the pertinent departments for execution.

Secondly:

The Board reviewed what it requested of documents and files, and received the data which helped it to perform the supervisory and audit work.

Thirdly:

The Board has reviewed samples of contracts and agreements that were presented and requested the Management to adhere to them.

Fourthly: Balance Sheet

The Board has reviewed the Consolidated Statement of Financial Position and appended data and notes and made its observations on them.

1. In line with the available information and disclosures that are presented by the Banks' management, the consolidated statement of financial position reviewed by the Board are in compliant with Islamic Shari'a principles and Shari'a Board resolutions. The accuracy of the information and data provided represents the Banks' assets, liabilities, equity of investment account holders, and owner's equity are the responsibility of the Banks' management.

2. The Board believes that the consolidated financial statements for the year ended 31 December 2017 along with the distribution of profit to depositors and dividends to shareholders had been prepared in conformity with the Islamic Shari'a regulations.

Fifthly: Zakah

Since the Articles of Association of the Bank does not require the Bank to pay Zakah on behalf of the Shareholders, thus, the Board has calculated the Zakah due on the shareholders in order to inform them, and which is disclosed in the notes to the consolidated financial statements.

Sixthly: Prohibited Income

According to the Board's decision that the prohibited income after the date of complete conversion for non Shari'a-compliant transactions which occurred on 1st January 2016, the transactions that are not converted after this date due to court cases or for any other reason are disclosed in the notes to the consolidated financial statements with the bank's commitment to channel the prohibited income to Charity.

Seventhly:

The Shari'a Board decided to ward off the Shari'a non-compliant income from the transactions executed during the year and have it spent on Charity.

Eightly:

The Board hereby emphasizes that management has the primary responsibility to comply with the Rules and Principles of Shari'a in all activities and transactions of the Bank. The Board confirms that the executed transactions that are submitted by management of the Bank for the Board's review during the year were generally in compliance with Rules and Principles of Shari'a. The management has shown utmost interest and willingness to fully comply with the recommendations of the Board.

Fatwa & Shari'a Supervisory Board Members

Dr. Hussein Hamed Hassan
Chairman

Dr. Fareed Almeftah
Board Member

Shaikh Adnan Al Qattan
Board Member

Dr. Mohammed Zoeir
Board Member

Dr. Mohammed Arbouna
Board Member & Secretary to the Board

Independent Auditors' Report to the Shareholders

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14th Floor, South Tower
Bahrain World Trade Centre
Manama
Kingdom of Bahrain

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Fax: +973 1753 5405
manama@bh.ey.com
ey.com/mena
C.R. No. 6700

Report On The Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Al Salam Bank-Bahrain B.S.C. ["the Bank"] and its subsidiaries [together "the Group"] as of 31 December 2017, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. 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 Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. 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 the Bank's Board of Directors, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2017, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other Matters

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

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

b. the financial information contained in the report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2017 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst & Young

Partner's Registration No. 115
13 February 2018
Manama, Kingdom of Bahrain

Financial Statements

Consolidated Statement of Financial Position

31 December 2017

	Note	2017 BD'000	2016 BD'000
ASSETS			
Cash and balances with banks and Central Bank	4	**66,351**	131,990
Sovereign Sukuk		**357,778**	358,269
Murabaha and Wakala receivables from banks	5	**143,803**	182,452
Corporate Sukuk	6	**10,324**	28,934
Murabaha financing	7	**197,380**	213,687
Mudaraba financing	8	**308,093**	252,807
Ijarah Muntahia Bittamleek	9	**212,148**	188,485
Musharaka		**19,192**	12,304
Assets under conversion	11	**2,771**	37,016
Non-trading investments	12	**111,325**	122,073
Investments in real estate	13	**52,431**	51,863
Development properties	14	**6,448**	17,781
Investment in associates	15	**16,835**	10,561
Other assets	16	**58,410**	27,260
Goodwill	17	**25,971**	25,971
Assets classified as held-for-sale		**-**	19,840
TOTAL ASSETS		**1,589,260**	1,681,293
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND EQUITY			
LIABILITIES			
Murabaha and Wakala payables to banks		**154,641**	132,032
Murabaha and Wakala payables to non-banks		**597,848**	723,439
Current Accounts		**283,886**	279,609
Liabilities under conversion	11	**2,729**	217
Murabaha term financing	18	**79,786**	91,837
Other liabilities	19	**47,652**	49,043
Liabilities relating to assets classified as held-for-sale		**-**	11,421
TOTAL LIABILITIES		**1,166,542**	1,287,598
EQUITY OF INVESTMENT ACCOUNTHOLDERS	20	**118,881**	68,796
EQUITY			
Share capital	21	**214,093**	214,093
Treasury stock	21	**(1,879)**	(1,646)
Reserves and retained earnings		**76,029**	100,213
Proposed appropriations		**14,987**	10,705
Total equity attributable to shareholders of the Bank		**303,230**	323,365
Non-controlling interest		**607**	1,534
TOTAL EQUITY		**303,837**	324,899
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND EQUITY		**1,589,260**	1,681,293

Shaikha Hessa bint Khalifa Al Khalifa
Chairperson of the Board

Yousif Taqi
Director & Group CEO

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated Statement of Income

Year ended 31 December 2017

	Note	2017 BD'000	2016 BD'000
OPERATING INCOME			
Income from financing contracts	24	**43,688**	38,850
Income from Sukuk		**16,724**	15,930
Gain on sale of investments and Sukuk - net	25	**6,506**	15,153
Income from investments	26	**1,745**	1,819
Fair value changes on investments		**(941)**	2,477
Dividend income		**669**	891
Foreign exchange gain		**1,177**	2,146
Fees, commission and other income - net	27	**12,459**	7,929
		82,027	85,195
Profit on Murabaha and Wakala payables to banks		**(1,831)**	(1,910)
Profit on Wakala payables to non-banks		**(15,476)**	(18,046)
Profit on Murabaha term financing		**(2,411)**	(2,120)
Return on equity of investment accountholders before Group's share as a Mudarib	20	**(230)**	(216)
Group's share as a Mudarib	20	**111**	97
		(119)	(119)
Total operating income		**62,190**	63,000
OPERATING EXPENSES			
Staff cost		**11,528**	11,523
Premises and equipment cost		**1,675**	2,021
Depreciation		**1,509**	3,060
Other operating expenses		**9,553**	9,454
Total operating expenses		**24,265**	26,058
PROFIT BEFORE PROVISIONS AND RESULTS OF ASSOCIATES		**37,925**	36,942
Net allowance for credit losses / impairment	10	**(20,656)**	(21,573)
Share of profit from associates	15	**786**	727
NET PROFIT FOR THE YEAR		**18,055**	16,096
ATTRIBUTABLE TO:			
- Shareholders of the Bank		**18,099**	16,219
- Non-controlling interest		**(44)**	(123)
		18,055	16,096
Weighted average number of shares (in '000)		**2,125,147**	2,140,820
Basic and diluted earnings per share (fils)	23	**8.5**	7.6

Shaikha Hessa bint Khalifa Al Khalifa
Chairperson of the Board

Yousif Taqi
Director & Group CEO

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Note	2017 BD'000	2016 BD'000
OPERATING ACTIVITIES			
Net profit for the year		**18,055**	16,096
Adjustments:			
Depreciation		**1,509**	3,060
Amortisation of premium on Sukuk - net		**1,179**	1,630
Fair value changes on investments		**941**	(2,441)
Gain on sale of investments and Sukuk - net		**(6,506)**	-
Net allowance for credit losses / impairment		**20,656**	21,573
Share of profit from associates		**(786)**	(727)
Operating income before changes in operating assets and liabilities		**35,048**	39,191
Changes in operating assets and liabilities:			
Mandatory reserve with Central Bank		**(2,710)**	2,727
Murabaha financing		**1,873**	3,756
Mudaraba financing		**(76,699)**	(4,774)
Ijarah Muntahia Bitteamleek		**(26,535)**	(32,893)
Musharaka		**(7,087)**	(5,150)
Assets under conversion		**10,575**	(3,620)
Other assets		**(15,121)**	16,665
Assets and liabilities classified as held-for-sale		**-**	(8,419)
Murabaha and Wakala payables to banks		**22,609**	11,237
Wakala from non-banks		**(125,591)**	(119,131)
Current accounts		**4,277**	46,062
Liabilities under conversion		**2,512**	(2,110)
Other liabilities		**(1,769)**	248
Net cash used in operating activities		**(178,618)**	(56,211)
INVESTING ACTIVITIES			
Net cash flow arising on acquisition of a subsidiary		**-**	8,723
Cash paid on acquisition of a subsidiary		**-**	(726)
Sovereign Sukuk		**(638)**	(8,994)
Corporate Sukuk		**18,557**	21,107
Non-trading investments		**14,857**	807
Investments in real estate		**-**	16,904
Development properties		**11,333**	31,240
Investments in associates		**(6,240)**	-
Purchase of premises and equipment		**(699)**	(1,664)
Net movements in non-controlling interest		**-**	120
Sales of subsidiaries		**7,275**	-
Net cash from investing activities		**44,445**	67,517
FINANCING ACTIVITIES			
Murabaha term financing		**30,200**	56,390
Equity of investment accountholders		**50,085**	6,445
Dividends paid		**(10,626)**	(10,705)
Purchase of treasury stock		**(233)**	(1,646)
Murabaha term financing paid		**(42,251)**	(539)
Net cash from financing activities		**27,175**	49,945
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(106,998)**	61,251
Cash and cash equivalents at 1 January		**284,928**	223,677
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**177,930**	284,928
Cash and cash equivalents comprise of:			
Cash and other balances with Central Bank of Bahrain	4	**8,509**	72,356
Balances with other banks	4	**25,618**	30,120
Murabaha and Wakala receivables from banks with original maturities of less than 90 days		**143,803**	182,452
		177,930	284,928

The attached notes 1 to 44 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year Ended 31 December 2017

Amounts in BD '000s

	Attributable to shareholders of the Bank												
			Reserves										
	Share Capital	*Treasury stock*	*Statutory reserve*	*Retained earnings*	*Changes in fair value*	*Real estate fair value reserve*	*Foreign exchange translation reserve*	*Share premium reserve*	*Total reserves*	*Proposed appropriations*	*Total owners' equity*	*Non-controlling interest*	*Group total equity*
Balance as of 1 January 2017	214,093	(1,646)	15,338	50,695	445	24,234	(2,708)	12,209	100,213	10,705	323,365	1,534	324,899
Transition adjustment on													
adoption of FAS 30 as of 1 January 2017 (Note. 2.3.1)	-	-	-	(26,759)	-	-	-	-	(26,759)	-	(26,759)	(12)	(26,771)
Restated balance as of 1 January 2017	214,093	(1,646)	15,338	23,936	445	24,234	(2,708)	12,209	73,454	10,705	296,606	1,522	298,128
Net profit for the year	-	-	-	18,099	-	-	-	-	18,099	-	18,099	(44)	18,055
Net changes in fair value	-	-	-	-	(246)	568	-	-	322	-	322	-	322
Foreign currency re-translation	-	-	-	-	-	-	(211)	-	(211)	-	(211)	-	(211)
Dividend paid	-	-	-	79	-	-	-	-	79	(10,705)	(10,626)	(12)	(10,638)
Disposal of subsidiaries	-	-	-	-	-	(727)	-	-	(727)	-	(727)	(871)	(1,598)
Proposed dividend for the year 2017	-	-	-	(14,987)	-	-	-	-	(14,987)	14,987	-	-	-
Purchase of treasury stock	-	(233)	-	-	-	-	-	-	-	-	(233)	-	(233)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	12	12
Transfer to statutory reserve	-	-	1,810	(1,810)	-	-	-	-	-	-	-	-	-
Balance at 31 December 2017	**214,093**	**(1,879)**	**17,148**	**25,317**	**199**	**24,075**	**(2,919)**	**12,209**	**76,029**	**14,987**	**303,230**	**607**	**303,837**
Balance as of 1 January 2016	214,093	-	13,716	46,803	(148)	24,253	(2,693)	12,209	94,140	10,705	318,938	1,064	320,002
Net profit for the year	-	-	-	16,219	-	-	-	-	16,219	-	16,219	(123)	16,096
Net changes in fair value	-	-	-	-	593	(19)	-	-	574	-	574	-	574
Foreign currency re-translation	-	-	-	-	-	-	(15)	-	(15)	-	(15)	11	(4)
Dividend paid	-	-	-	-	-	-	-	-	-	(10,705)	(10,705)	-	(10,705)
Proposed dividend the year 2016	-	-	-	(10,705)	-	-	-	-	(10,705)	10,705	-	-	-
Purchase of treasury stock	-	(1,646)	-	-	-	-	-	-	-	-	(1,646)	-	(1,646)
Movements in non-controlling interest due to ASBS acquisition	-	-	-	-	-	-	-	-	-	-	-	582	582
Transfer to statutory reserve	-	-	1,622	(1,622)	-	-	-	-	-	-	-	-	-
Balance at 31 December 2016	214,093	(1,646)	15,338	50,695	445	24,234	(2,708)	12,209	100,213	10,705	323,365	1,534	324,899

The attached notes 1 to 44 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2017

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and is registered with Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration Number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Bahrain World Trade Center, East Tower, King Faisal Highway, Manama 316, Kingdom of Bahrain.

On 30 March 2014, the Bank acquired 100% stake in BMI Bank B.S.C.(c) ("BMI"), a closed shareholding company in the Kingdom of Bahrain, through exchange of shares. During January 2015, the Shari'a Supervisory Board approved BMI Bank to be an Islamic bank effective 1 January 2015.

On 29 November 2016, the shareholders of BMI resolved to approve the transfer of the operations of BMI to the Bank. The transfer of business was approved by the CBB on 17 April 2017 which was subsequently published in the official gazette dated 20 April 2017. The Bank has transferred majority of the BMI's rights and assumed all of it's obligations at their respective carrying values.

During 2016, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS").

The Bank and its principal subsidiary operates through 10 branches in the Kingdom of Bahrain and Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

In addition to ASBS, the other subsidiaries of the Bank are as follows:

Name of entity	**Nature of entity**	**% holding**	
		2017	2016
Al Salam Leasing Two Ltd ("ASL II")	Aircraft under lease	-	76
Auslog Holding Trust	Investment in real estate	-	90

The Bank together with its subsidiaries is referred to as "the Group".

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 13 February 2018.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, fair value through equity and investments in real estates which are held at fair value. These consolidated financial statements incorporate all assets, liabilities and off-balance sheet financial contracts held by the Group.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Group, rounded to the nearest thousand [BD '000], except where otherwise indicated.

2.1.a Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia' rules and Principles as determined by the Sharia' Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law, the guidelines of CBB and Financial Institutions Law. The matters for which no AAOIFI standards exist, the Group uses the relevant applicable International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB").

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the consolidated statement of financial position date (current) and more than twelve months after the consolidated statement of financial position date (non-current) is presented in Note 34.

2.1.b Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2017. The financial statements of the subsidiaries are prepared for the same reporting year using consistent accounting policies of the Bank. All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity with the objective of obtaining benefits from its operations. The results of subsidiaries acquired or disposed off during the year, if any, are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Share of minority stakeholders' interest (non-controlling interest) represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the Bank.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgments and estimates also affect the revenues and expenses and the resultant allowance for losses as well as fair value changes reported in equity.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of goodwill

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the Board of Directors, extrapolated for five years projection using nominal projected growth rate. The determination of projected growth rate and discount rate involves judgment whereas, preparation of cash flow projections requires various management assumptions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience.

Impairment of fair value through equity investments

The Group treats fair value through equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of significant or prolonged decline and other objective evidence involves judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities, the future cash flows and the present value calculation factors for unquoted equities.

Valuation of unquoted private equity and real estate investments

Valuation of above investments involve judgment and is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another contract that is substantially similar;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- application of other valuation models.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same contract or other available observable market data.

Judgments

Going concern

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

Control over special purpose entities

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

Classification of investments

Management decides upon acquisition of an investment whether it should be classified as fair value through profit or loss or fair value through equity.

Impairment assessment of financial contracts - policy applicable from 1 January 2017

In determining impairment on receivables, judgment is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contract has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL"). Refer to note 2.3.2 (b) for further details.

2.3 SIGNIFICANT ACCOUNTING POLICIES

2.3.1 Early adoption of FAS 30 - Impairment, Credit Losses and Onerous Commitments ("FAS 30")

The Group has early adopted FAS 30, effective from 1 January 2017 which has a mandatory date of initial application of 1 January 2020. The requirements of FAS 30 represent a significant change from FAS 11 "Provisions and Reserves".

As permitted by FAS 30, the standard has been applied retrospectively and the comparative amounts have not been restated. The impact of the early adoption of FAS 30 has been recognised in retained earnings in the consolidated statment of changes in equity. The standard eliminates the use of the existing FAS 11 incurred loss impairment model approach.

Transition

Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except comparative periods which have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognised in retained earnings and reserves as at 1 January 2017. Accordingly, the information presented for 2016 does not reflect the requirements of FAS 30 and therefore is not comparable to the information presented for 2017 under FAS 30.

Impact of adopting FAS 30

Following is the impact of early adoption of FAS 30:

	Balance 31 December 2016 BD '000	Transition adjustment BD '000	Restated Balance 1 January 2017 BD '000
Retained earnings	50,695	(26,759)	23,936
Non-controlling interest	1,534	(12)	1,522
Murabaha and Wakala receivables from banks	182,452	(4)	182,448
Murabaha financing	213,687	(14,636)	199,051
Mudaraba financing	252,807	(4,742)	248,065
Ijarah Muntahia Bittamleek	188,485	(4,151)	184,334
Musharaka	12,304	(91)	12,213
Assets under conversion	37,016	(44)	36,972
Investment in associates	10,561	(541)	10,020
Other assets	27,260	(891)	26,369
Other liabilities	49,043	(1,647)	50,690

The key changes to the Group's accounting policies resulting from its adoption of FAS 30 are summarized in note 2.3.2 (b).

2.3.2 Summary of significant accounting policies

a) Financial contracts

Financial contracts consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, Murabaha financing (net of deferred profits), Mudaraba financing, Musharaka, Ijarah Muntahia Bittamleek, asset under conversion and other assets. Balances relating to these contracts are stated net of allowance for credit losses.

b) Impairment assessment (policy applicable from 1st January 2017)

Impairment of financial asset

FAS 30 replaces the 'incurred loss' model in FAS 11 with ECL model. The new impairment model also applies to certain financing commitments and financial guarantee contracts but not to equity investments.

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL associated with the probability of default events occurring within next twelve months is recognised.

Twelve-month ECL (Stage 1) is the portion of ECL that results from probable default events on a financial contract within twelve months after the reporting date.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. As this uses the same criteria as under FAS 11, the Group methodology for specific allowance for credit losses remains largely unchanged.

<u>Credit-impaired financial assets</u>

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- probability that the borrower will enter bankruptcy or other financial reorganization; or
- the restructuring of a facility by the Group on terms that the Group would not consider otherwise.

Measurement of ECL

The key inputs into the measurement of ECL are the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed models and other historical data. These are adjusted to reflect forward-looking information as described below.

Definition of default

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than 90 days or any credit obligation to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group.

Probability of default

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs statistical models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Bank has taken exposures. For most exposures, the key macro-economic indicators include gross domestic product (GDP) growth, real interest rates, unemployment, domestic credit growth, oil prices, central government revenue as a percentage to GDP and central government expenditure as a percentage to GDP.

Incorporation of forward - looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio as per the diagnostic tool.

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

Loss Given Default

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. The LGD is estimated using below factors:

Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

Notes To The Consolidated Financial Statements (continued)

2 ACCOUNTING POLICIES (continued)
2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2 Summary of significant accounting policies (continued)
b) Impairment assessment (policy applicable from 1st January 2017) (continued)

Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value.

Exposure At Default

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to consolidated statement of financial position equivalents.

Significant Increase in Credit Risk

When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due and risk rating.

Renegotiated financial assets

The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

"The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing (prior to restructuring), then such restructured accounts are categorized under stage 3."

Backward transition

FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). However, movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1.

Credit Conversion Factor

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF times undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioral utilization over the last five years or capital charge.

Write-offs

Financing securities are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Presentation of allowance for credit losses in the consolidated statement of financial position

Allowance for credit losses are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, the Group presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

c) Impairment and uncollectability of financial assets (applicable up to 31st December 2016)

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, impairment loss, if any, is recognised in the consolidated income statement.

Impairment is determined as follows:

(i) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;

(ii) for assets carried at fair value, impairment is the difference between cost and fair value; and

(iii) for assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial asset.

For fair value through equity investments, reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

d) Sovereign Sukuk and Corporate Sukuk

These are quoted / unquoted securities and are classified as investments carried at amortised cost.

e) Murabaha financing

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract, the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favor of the Seller to be binding.

Murabaha receivables are stated at cost, net of deferred profits and / or allowance for credit losses, if any, and amounts settled.

f) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Mudaraba financing are recognised at fair value of the Mudaraba assets net of allowance for credit losses, if any, and Mudaraba Capital amounts settled. If the valuation of the Mudaraba assets results in difference between fair value and book value, such difference is recognised as profit or loss to the Group.

g) Ijarah Muntahia Bittamleek

Ijara Muntahia Bittamleek is an agreement whereby the Group ("Lessor") leases an asset to the customer ("Lessee") after purchasing / acquiring a specified asset, either from a third party seller or from the customer, according to the customer's request and promise to lease against certain rental payments for a specific lease term / periods, payable on fixed or variable rental basis.

The Ijara agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The Lessee provides the Lessor with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule throughout the lease term.

The Lessor retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijara agreement, the Lessor will sell the leased asset to the Lessee for a nominal value based on sale undertaking given by the Lessor. Leased assets are usually in the type of residential properties, commercial real estate or aircrafts.

Depreciation is provided on a systematic basis on all Ijarah Muntahia Bittamleek assets other than land (which is deemed to have an indefinite useful life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

h) Musharaka

Musharaka is used to provide venture capital or project finance. The Group and customer contribute towards the capital of the Musharaka. Usually a special purpose company or a partnership is established to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

Musharaka is stated at cost, less any allowance for credit losses.

i) Assets and liabilities under conversion

Assets under conversion:

Loans and advances

At amortised cost less any amounts written off and allowance for credit losses, if any.

Non-trading investments

These are classified as fair value through equity investments and are fair valued based on criteria set out in note 2.3.2 (b). Any changes in fair values subsequent to acquisition date are recognised in total comprehensive income (note 28).

Liabilities under conversion:

These are remeasured at amortised cost.

j) Non-trading investments

These are classified as fair value through equity or fair value through profit or loss investments.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Acquisition cost relating to investments designated as fair value through profit or loss is charged to consolidated income statement.

Following the initial recognition of investments, the subsequent reporting values are determined as follows:

Fair value through equity investments

After initial recognition, equity investments which are classified as investments at fair value through equity are normally remeasured at fair value, unless the fair value cannot be reliably determined, in which case they are measured at cost less impairment, if any. Fair value changes are reported in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "changes in fair value" within equity, is included in the consolidated income statement.

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

Fair value through profit or loss investments

Investments in this category are designated as such on initial recognition if these investments are evaluated on a fair value basis in accordance with the Group's risk management policy and its investment strategy. These include all private equity investments including those in joint ventures and associates which are not strategic in nature.

Investments at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded as "fair value changes on investments" in the consolidated income statement. Gain on sale of these investments is included in "gain on sale of investments and Sukuk" in the consolidated income statement. Income earned on these investments is included in "income from investments" in the consolidated income statement.

k) Investments in associates

The Group's investments in associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other manner.

Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the Group's associates are identical with the Group and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in associates.

Foreign exchange translation gains / losses arising out of the above investment in the associates are included in the consolidated statement of changes in equity.

l) Investments in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estate. The investment in real estate is initially recognised at cost and subsequently measured based on intention whether the investments in real estate is held-for-use or held-for-sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model, any unrealized gains are recognised directly in owners' equity. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognised in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealized gains relating to the current financial period is recognised to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell. Investments in real estate carried at fair value shall continue to be measured at fair value.

m) Development properties

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost or net realisable value.

n) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is changed on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer hardware	3 to 5 years
- Computer software	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	4 to 5 years
- Leasehold improvements	Over the lease period

o) Subsidiaries acquired with a view to sell

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "assets held-for-sale" and "liabilities relating to assets classified as held-for-sale" respectively. Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

p) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognises the resulting gain or loss, if any, in the consolidated income statement or total comprehensive income as appropriate.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill.

Investments acquired but do not meet the definition of business combination are recorded as financing assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

Impairment of goodwill is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is / are not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

q) Offsetting

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

r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

s) Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees. Entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For Bahraini employees, the Group makes contributions to Social Insurance Organisation calculated as a certain percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

t) Revenue recognition

Murabaha and Wakala receivables

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a straight-line basis over the deferred period. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments of Murabaha installments are overdue by 90 days, whichever is earlier.

Sukuk

Income on Sukuk is recognised on a time-proportionate basis based on underlying rate of return of the respective type of Sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments are overdue by 90 days, whichever is earlier.

Mudaraba

Income on Mudaraba transactions are recognised when the right to receive payment is established or these are declared by the Mudarib, whichever is earlier. In case of losses in Mudaraba, the Group's share of loss is recognised to the extent that such losses are being deducted from its share of the Mudaraba Capital.

Dividend
Dividend income is recognised when the Group's right to receive the dividend is established.

Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek income is recognised on a time-proportionate basis over the lease term. Income related to non-performing Ijarah Muntahia Bittamleek is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Musharaka
Income on Musharaka is recognised when the right to receive payment is established or on distributions. In case of losses in Musharaka, the Group's share of loss is recognised to the extent that such losses are being deducted from its share of the Musharaka capital.

Fees and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

- Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.

- Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time.

- Other fee income: This is recognised when services are rendered

u) Fair value of financial assets
For investments that are traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another contract, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For assets having fixed or determinable payments, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for contracts with similar terms and risk characteristics.

v) Foreign currencies
Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "fair value through equity" and investment

in associates are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through profit or loss" are directly recognised in the consolidated income statement.

w) Translation of foreign operations
Assets and liabilities of foreign subsidiaries whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting period. Any exchange differences arising on translation are included in foreign exchange translation reserve forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated income statement.

x) Repossessed assets
Repossessed assets are assets acquired in settlement of dues. These assets are carried at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'. The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value or fair value less cost to sell for non-financial assets at the repossession date in line with the Group's policy.

y) Trade and settlement date accounting
Purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

z) Derecognition of financial assets
Financial assets are derecognised 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

aa) Fiduciary assets
Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position.

ab) Dividend on ordinary shares
Dividend payable on ordinary issued and fully paid shares of the Bank is recognised as a liability and deducted from equity when it is approved by the Group's shareholders. Dividend for the year that is approved after the reporting date is included in the equity and is disclosed as an event after the consolidated statement of financial position date.

ac) Equity of investment account holders
All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Share of income for equity of investment accountholder is calculated based on the income generated by the assets funded by such investment accounts after deducting Mudarib share (as Mudarib and Rabalmal). Operating expenses are additionally charged to shareholders' funds and are not included in the calculation.

The basis applied by the Group in arriving at the equity of investment accountholders' share of income is total investment income less shareholders' income.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

ad) Treasury Stock

Own equity contracts that are re-acquired, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity contracts. Any difference between the carrying amount and the consideration, if re-issued, is recognised in share premium in consolidated statement of changes in equity.

ae) Zakah

'In accordance with the articles of association of the Group, the responsibility to pay Zakah is on the shareholders of the Bank.

af) Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with the CBB and Murabaha receivables from banks with original maturities of less than 90 days.

ag) Wakala payables

The Group accepts funds from banks and customers under Wakala arrangements in which a return is payable to customers as agreed in the agreement. There is no restriction on the Group for the use of funds received under Wakala agreement.

Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding

ah) Jointly financed and self-financed

Investments, financing and receivables that are jointly-funded by the Group and the equity of investment accountholders are classified under the caption "jointly-financed" in the consolidated financial statements. Investments, financing and receivables that are funded solely by the Group are classified under "self-financed".

ai) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	31 December 2017			
	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
ASSETS				
Cash and balances with banks and Central Bank	-	-	66,351	66,351
Sovereign Sukuk	-	-	357,778	357,778
Murabaha and Wakala receivables from banks	-	-	143,803	143,803
Corporate Sukuk	-	-	10,324	10,324
Murabaha financing	-	-	197,380	197,380
Mudaraba financing	-	-	308,093	308,093
Ijarah Muntahia Bittamleek	-	-	212,148	212,148
Musharaka	-	-	19,192	19,192
Assets under conversion	-	-	2,771	2,771
Non-trading investments	109,393	1,932	-	111,325
Investments in real estate	-	52,431	-	52,431
Development properties	-	-	6,448	6,448
Investment in associates	-	-	16,835	16,835
Other assets	-	1,359	57,051	58,410
Goodwill	-	-	25,971	25,971
	109,393	55,722	1,424,145	1,589,260

	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	154,641	154,641
Murabaha and Wakala payables to non-banks	-	-	597,848	597,848
Current accounts	-	-	283,886	283,886
Liabilities under conversion	-	-	2,729	2,729
Term financing	-	-	79,786	79,786
Other liabilities	-	-	47,652	47,652
Equity of investment accountholders	-	-	118,881	118,881
	-	-	1,285,423	1,285,423

Notes To The Consolidated Financial Statements (continued)

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

	31 December 2016			
	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
ASSETS				
Cash and balances with banks and Central Bank	-	-	131,990	131,990
Sovereign Sukuk	-	-	358,269	358,269
Murabaha and Wakala receivables from banks	-	-	182,452	182,452
Corporate Sukuk	-	-	28,934	28,934
Murabaha financing	-	-	213,687	213,687
Mudaraba financing	-	-	252,807	252,807
Ijarah Muntahia Bittamleek	-	-	188,485	188,485
Musharaka	-	-	12,304	12,304
Assets under conversion	-	41	36,975	37,016
Non-trading investments	115,403	6,670	-	122,073
Investments in real estate	-	51,863	-	51,863
Development properties	-	-	17,781	17,781
Investment in associates	-	-	10,561	10,561
Other assets	-	1,449	25,811	27,260
Goodwill	-	-	25,971	25,971
Assets classified as held-for-sale	-	19,636	204	19,840
	115,403	79,659	1,486,231	1,681,293

	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	132,032	132,032
Murabaha and Wakala payables to non-banks	-	-	723,439	723,439
Current accounts	-	-	279,609	279,609
Liabilities under conversion	-	-	217	217
Term financing	-	-	91,837	91,837
Other liabilities	-	-	49,043	49,043
Equity of investment accountholders	-	-	68,796	68,796
Liabilities relating to assets classified as held-for-sale	-	-	11,421	11,421
	-	-	1,356,394	1,356,394

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2017 BD '000	2016 BD '000
Mandatory reserve with Central Bank*	**32,224**	29,514
Cash and other balances with Central Bank	**8,509**	72,356
Balances with other Banks**	**25,618**	30,120
	66,351	131,990

* This balance is not available for use in the day-to-day operations of the Group.

** This balance is net of an insignificant amount of allowance for credit losses.

5 MURABAHA AND WAKALA RECEIVABLES FROM BANKS

	2017 BD '000	2016 BD '000
Jointly financed assets	**118,879**	68,796
Self financed assets	**24,924**	113,656
	143,803	182,452

The above receivables are net of allowance for credit losses of BD 2 thousands (2016: BD nil) which is wholly allocated to jointly-financed assets.

At 31 December 2017, deferred profits on Murabaha and Wakala receivables from banks amounted to BD 35 thousands (2016: BD 60 thousands).

The entire exposure of Murabaha and Wakala receivables from Banks at 31 December 2017 and 31 December 2016 are with financial entities mainly based in GCC countries.

6 CORPORATE SUKUK

	2017 BD '000	2016 BD '000
Investment grade	**5,689**	17,865
Non-investment grade	**4,635**	3,843
Un-rated Sukuk	**-**	7,226
	10,324	28,934

The above balance is net of allowance for credit losses of BD 3 thousands (2016: BD nil).

7 MURABAHA FINANCING

	2017 BD '000	2016 BD '000
Murabaha financing	**223,749**	231,363
Less: allowance for credit losses	**(26,369)**	(17,676)
	197,380	213,687

Murabaha financing is reported net of deferred profits of BD 29,694 thousands (2016: BD 39,249 thousands).

7.1 MOVEMENTS IN ALLOWANCE FOR CREDIT LOSSES ON MURABAHA FINANCING

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '0000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total ECL BD '000**	Total BD '000
Balance at 1 January on adoption of FAS 30	**2,680**	**12,766**	**16,866**	**32,312**	8,288
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1: 12 month ECL	**454**	**(304)**	**(150)**	**-**	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	**(24)**	**24**	**-**	**-**	-
- transferred to Stage 3: Lifetime ECL credit-impaired	**(16)**	**(187)**	**203**	**-**	-
Net remeasurement of loss allowance	**1,096**	**(1,282)**	**12,536**	**12,350**	14,645
Recoveries / write-backs	**(455)**	**(206)**	**(115)**	**(776)**	(1,767)
Allowance for credit losses	**1,055**	**(1,955)**	**12,474**	**11,574**	12,878
Reclass to other financing contracts	**-**	**-**	**-**	**-**	(2,643)
Amounts written off during the year	**-**	**-**	**(17,517)**	**(17,517)**	(847)
Balance at the end of the year	**3,735**	**10,811**	**11,823**	**26,369**	17,676

8 MUDARABA FINANCING

	2017 BD '000	2016 BD '000
Mudaraba financing	**325,748**	267,559
Less: allowance for credit losses	**(17,655)**	(14,752)
	308,093	252,807

8.1 MOVEMENTS IN ALLOWANCE FOR CREDIT LOSSES ON MUDARABA FINANCING

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '0000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total ECL BD '000**	Total BD '000
Balance at 1 January on adoption of FAS 30	**4,711**	**3,281**	**11,502**	**19,494**	10,633
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1: 12 month ECL	**735**	**(732)**	**(3)**	**-**	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	**(100)**	**416**	**(316)**	**-**	-
- transferred to Stage 3: Lifetime ECL credit-impaired	**(22)**	**(2,142)**	**2,164**	**-**	-
Net remeasurement of loss allowance	**907**	**3,952**	**(135)**	**4,724**	290
Recoveries / write-backs	**(134)**	**(100)**	**(193)**	**(427)**	(52)
Allowance for credit losses	**1,386**	**1,394**	**1,517**	**4,297**	238
Reclass to other financing contracts	**-**	**-**	**-**	**-**	4,289
Amounts written off during the year	**-**	**-**	**(6,136)**	**(6,136)**	(408)
Balance at the end of the year	**6,097**	**4,675**	**6,883**	**17,655**	14,752

9 IJARAH MUNTAHIA BITTAMLEEK

This represents net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The majority of the lease documentations provide that the Lessor undertakes to transfer the leased assets to the Lessee at the end of the lease term upon the lessee fulfilling all its obligations under the lease agreement.

	2017 BD '000	2016 BD '000
Movements in Ijarah Muntahia Bittamleek assets are as follows:		
At 1 January	**188,485**	155,217
Additions during the year - net	**54,782**	29,006
Ijarah assets depreciation	**(17,996)**	(10,568)
(Disposal) / transfer	**(14,400)**	14,400
Reversal of allowance for credit losses during the year	**1,277**	430
At 31 December	**212,148**	188,485

	2017 BD '000	2016 BD '000
The future minimum lease receivable in aggregate are as follows:		
Due within one year	**6,314**	4,304
Due in one to five years	**98,459**	79,273
Due after five years	**107,375**	104,908
	212,148	188,485
Ijarah Muntahia Bittamleek is divided into the following asset classes:		
Land and buildings	**212,148**	181,685
Aircraft	**-**	6,800
	212,148	188,485

The accumulated depreciation on Ijarah Muntahia Bittamleek assets amounted to BD 43,832 thousands (2016: BD 40,403 thousands).

9.1 MOVEMENTS IN ALLOWANCE FOR CREDIT LOSSES ON IJARAH MUNTAHIA BITTAMLEEK

	2017				2016
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '0000	Stage 3: Lifetime ECL credit-impaired BD '000	Total ECL BD '000	Total BD '000
Balance at 1 January on adoption of FAS 30	1,009	1,106	12,212	14,327	9,304
Changes due to receivables recognised in opening balance that have:					
- transferred to Stage 1: 12 month ECL	234	(229)	(5)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(5)	16	(11)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(2)	(117)	119	-	-
Net remeasurement of loss allowance	(174)	(286)	(445)	(905)	2
Recoveries / write-backs	-	-	(372)	(372)	(432)
Allowance for credit losses	53	(616)	(714)	(1,277)	(430)
Reclass from other financing contracts	-	-	-	-	1,302
Amounts written off during the year	-	-	(7,769)	(7,769)	-
Balance at the end of the year	1,062	490	3,729	5,281	10,176

10 NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

	2017 BD '000	2016 BD '000
Murabaha and Wakala receivables from banks	(3)	-
Corporate Sukuk	3	-
Murabaha financing	11,574	12,878
Mudaraba financing	4,297	238
Ijarah Muntahia Bittamleek	(1,277)	(430)
Musharaka	108	(6)
Assets under conversion	37	501
Other assets	5,833	5,239
Financing commitments and financial guarantee contracts	(802)	-
	19,770	18,420
Impairment for fair value through equity investments (note 10.1)	886	3,153
	20,656	21,573

10.1 MOVEMENTS IN IMPAIRMENT FOR FAIR VALUE THROUGH EQUITY INVESTMENTS

	2017 BD '000	2016 BD '000
Balance at the beginning of the year	8,624	5,471
Provision during the year	1,048	3,153
Recoveries / reversals	(162)	-
Allowance for impairment	886	3,153
Write-offs	(6,259)	-
Balance at the end of the year	3,251	8,624

11 ASSETS AND LIABILITIES UNDER CONVERSION

These represent interest bearing non-Shari'a compliant assets and liabilities of ASBS. These assets and liabilities have been reported as separate line items on the face of the consolidated statement of financial position. The details of the assets and liabilities under conversion are as follows:

	2017 BD '000	2016 BD '000
Assets		
Loans and advances*	**1,688**	35,408
Non-trading investments - debt	**926**	1,592
Non-trading investment - fair value through equity	**-**	16
Other assets	**157**	-
	2,771	37,016
Liabilities		
Customers' deposits	**2,729**	-
Other liabilities	**-**	217
	2,729	217

During the year, assets under conversion related to BMI have been transferred to other assets upon completion of the conversion period (note 16).

* This balance is net of allowance for credit losses of BD 93 thousands (2016: BD 1,714 thousands).

11.1 MOVEMENTS IN ALLOWANCE FOR CREDIT LOSSES ON ASSETS UNDER CONVERSION

	2017				2016
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total ECL BD '000	Total BD '000
Balance at 1 January on adoption of FAS 30	**56**	**671**	**1,043**	**1,770**	1,213
Transfer to other assets	**-**	**(671)**	**(1,043)**	**(1,714)**	-
Net remeasurement of loss allowance	**37**	**-**	**-**	**37**	584
Recoveries / write-backs	**-**	**-**	**-**	**-**	(83)
Allowance for credit losses	**37**	**-**	**-**	**37**	501
Amounts written off during the year	**-**	**-**	**-**	**-**	-
Balance at the end of the year	**93**	**-**	**-**	**93**	1,714

12 NON-TRADING INVESTMENTS

Non-trading investments are classified as fair value through equity or fair value through profit or loss.

Fair value hierarchy

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

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

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

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

The following table shows an analysis of the non-trading investments carried at fair value in the consolidated statement of financial position:

31 December 2017	**Level 1 BD '000**	**Level 2 BD '000**	**Level 3 BD '000**	**Total BD '000**
Financial assets at fair value through profit or loss	**5,903**	**5,561**	**97,929**	**109,393**
Financial assets at fair value through equity	**-**	**-**	**1,932**	**1,932**
	5,903	**5,561**	**99,861**	**111,325**

31 December 2016	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Financial assets at fair value through profit or loss	7,755	5,011	102,637	115,403
Financial assets at fair value through equity	3,968	-	2,702	6,670
	11,723	5,011	105,339	122,073

As of 31 December 2017, no transfers from have been made from Level 1 to Level 3 fair value measurements (2016: BD 1,793 thousands).

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	2017 BD '000	2016 BD '000
At 1 January	**105,339**	106,392
Fair value changes	**1,228**	228
Provision for impairment	**(726)**	(1,030)
Disposals during the year	**(2,346)**	(2,151)
Repayments during the year	**(3,634)**	(307)
Additions during the year	**-**	414
Transfer from level 1 to level 3	**-**	1,793
At 31 December	**99,861**	105,339

13 INVESTMENTS IN REAL ESTATE

	2017 BD '000	2016 BD '000
Land	**49,498**	48,930
Buildings	**2,933**	2,933
	52,431	51,863

The movements in fair value of investments in real estate classified in Level 3 of the fair value hierarchy are as follows:

	Fair measurement using significant unobservable inputs Level 3	
	2017 BD '000	2016 BD '000
At 1 January	**51,863**	68,786
Fair value changes	**568**	(19)
Additions during the year	**-**	2,732
Transfer to assets classified as held-for-sale	**-**	(19,636)
At 31 December	**52,431**	51,863

14 DEVELOPMENT PROPERTIES

These represent properties acquired and held through investment vehicles exclusively for development in the Kingdom of Bahrain and the United Kingdom. The carrying amounts include land price and related construction costs.

15 INVESTMENT IN ASSOCIATES

The Group has a 14.4% (2016: 14.4%) stake in Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. The Bank has representation on the board of ASBA through which the Bank exercises a significant influence on ASBA.

The Group has a 20.94% (2016: 20.94%) stake in Gulf African Bank ("GAB"), a private Islamic bank incorporated in Kenya.

During the year, the Group has made an investment in CSQ1 Property Unit Trust, a private company incorporated in Jersey. The Group has 23.2% stake in CSQ1 Property Unit Trust (2016: nil).

The Group's interest in ASBA, GAB and CSQ1 Property Unit Trust is accounted for using the equity method in the consolidated financial statements

The following table illustrates summarised financial information of Group's investments in ASBA:

	2017 BD '000	2016 BD '000
Associates' statement of financial position:		
Total assets	**282,037**	180,792
Total liabilities	**227,465**	128,426
Net assets	**54,572**	52,366
Total revenue	**13,093**	9,428
Total expenses	**9,144**	5,751
Net profit for the year	**3,949**	3,677
Group's share of associates' net profit	**451**	164

The following table illustrates summarised financial information of Group's investments in GAB:

	2017 BD '000	2016 BD '000
Associates' statement of financial position:		
Total assets	**115,427**	99,856
Total liabilities	**96,734**	83,889
Net assets	**18,693**	15,967
Total revenue	**11,661**	10,729
Total expenses	**10,074**	9,021
Net profit for the year	**1,587**	1,708
Group's share of associates' net profit	**335**	563

16 OTHER ASSETS

	2017 BD '000	2016 BD '000
Assets under conversion (a)		
Loans and advances to customers	**20,149**	-
Non-trading-investments - debt	**29**	344
Non-trading investments - fair value through equity (b)	**1,359**	1,341
	21,537	1,685
Repossessed assets (c)	**14,351**	4,863
Profit receivable	**11,410**	9,922
Premises and equipment	**1,704**	2,514
Prepayments	**1,136**	1,874
Rental receivable on Ijarah Muntahia Bittamleek assets	**1,090**	449
Credit card receivables - net	**2,437**	2,926
Other receivables and advances	**4,745**	3,027
	58,410	27,260

(a) These represent non-Shari'a compliant assets resulted from the acquisition of BMI and Bahraini Saudi Bank B.S.C. ("ex-BSB"). This balance is net of allowance for credit losses of BD 4,970 thousands (2016: BD nil).

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy (note 12). Movements in fair value through equity investments are as follows:

	***Fair value measurement using significant unobservable inputs* Level 3**	
	2017 BD '000	2016 BD '000
At 1 January	**1,341**	1,928
Transfer during the year	**18**	(82)
Disposals during the year	**-**	(505)
At 31 December	**1,359**	1,341

(c) This balance is net of provision of BD 611 thousands (2016: BD nil).

16.1 MOVEMENTS IN ALLOWANCE FOR CREDIT LOSSES ON OTHER ASSETS

	2017				2016
	Stage 1: 12 month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total ECL BD '000	Total BD '000
Balance at 1 January on adoption of FAS 30	**52**	**(419)**	**3,674**	**3,307**	125
Transfer to other assets under conversion	**-**	**671**	**1,043**	**1,714**	-
Net remeasurement of loss allowance	**95**	**(213)**	**6,676**	**6,558**	5,532
Recoveries / write-backs	**-**	**-**	**(1,336)**	**(1,336)**	(293)
Allowance for credit losses	**95**	**(213)**	**5,340**	**5,222**	5,239
Reclass to other financing contracts	**-**	**-**	**-**	**-**	(2,948)
Amounts written off during the year	**-**	**-**	**(2,184)**	**(2,184)**	-
Balance at the end of the year	**147**	**39**	**7,873**	**8,059**	2,416

17 GOODWILL

In 30 March 2014, the Bank acquired 100% of the paid-up capital of BMI. Goodwill of BD 25,971 thousands (2016: BD 25,971 thousands) arose from the business combination and is associated with the banking segment of the Group.

The recoverable amount of goodwill is based on value-in-use calculations using cash flow projections from financial forecasts approved by Board of Directors, extrapolated for five years projection using terminal growth rate of 1.5% (2016: 3%) and discount rate of 21.5% (2016: 11%).

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience.

Management performed a sensitivity analysis by changing the key assumptions to assess the impact of recoverable amount of the CGU. The discount rate and earnings are considered as key assumptions, a 0.5% change in the discount rate and a 0.25% change in earnings would have no impact on the carrying value of goodwill.

18 MURABAHA TERM FINANCING

These represents short-term to long-term financings with various financials institutions that are collateralised against corporate and sovereign Sukuk carrying value of BD 116,006 thousands (2016: BD 171,779 thousands).

19 OTHER LIABILITIES

	2017 BD '000	2016 BD '000
Accounts payable and accruals	**21,555**	25,524
Investment related payables	**7,208**	7,808
Profit payable	**5,293**	5,917
Dividend payable	**4,704**	3,988
Project payables	**4,645**	886
End of service benefits and other employee related accruals	**3,402**	4,144
Allowance for credit losses relating to financing commitments and financial guarantee contracts	**845**	-
Advances received from customers for sale of properties	**-**	776
	47,652	49,043

20 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment accountholders funds are commingled with the Group's funds and used to fund / invest in asset contracts and no priority is granted to any party for the purpose of investments and distribution of profits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested taking into consideration the relevant weightage, if any. The Mudarib's share of profit ranges between 40% and 50%. Operating expenses are charged to shareholders' funds and not included in the calculation. The Mudarib reserves its right to deduct, if required, a percentage of net profits before distribution out the investment funds to improve profits and may deduct another percentage out of the accountholders' share of the profits after distribution as a reserve against risks. This percentage shall be specified from time to time in the profit distribution at the Mudarib's discretion.

The balances consists of savings accounts of BD 58,014 thousands (2016: BD 50,944 thousands), call accounts of BD 37,932 thousands (2016: BD 12,207 thousands) and margin accounts of BD 22,935 thousands (2016: BD 5,645 thousands).

Allowance for credit losses allocated to the assets invested using funds from unrestricted investment accounts is immaterial.

The average profit rate attributed to the equity of investment accountholders for the year 2017 was 0.20% (2016: 0.27%).

21 SHARE CAPITAL

	2017 BD '000	2016 BD '000
Authorised:		
2,500,000,000 ordinary shares (2016: 2,500,000,000 shares) of BD 0.100 each	**250,000**	250,000
Issued and fully paid: (BD 0.100 per share)		
Number of shares 2,140,930,752 (2016: 2,140,930,752)	**214,093**	214,093

Total number of treasury stock outstanding as of 31 December 2017 was 19,218,000 shares (2016: 15,032,732 shares).

21.1 PROPOSED APPROPRIATION

The Board of Directors in its meeting on 13 February 2018 has resolved to recommend a cash dividend of 7 fils per share or 7% (2016: 5 fils or 5%) of the paid-up capital subject to approval at the forthcoming Annual General Meeting.

22 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law followed by the approval of the CBB.

23 EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

24 INCOME FROM FINANCING CONTRACTS

	2017 BD '000	2016 BD '000
Murabaha financing	**10,826**	12,870
Mudaraba financing	**17,289**	13,069
Ijarah Muntahia Bittamleek*	**10,499**	10,030
Musharaka	**961**	591
Murabaha and Wakala receivables from banks	**1,656**	1,415
Income from assets under conversion **	**2,457**	875
	43,688	38,850

* Depreciation on Ijarah Muntahia Bitamleek amounted to BD 17,996 thousands (2016: BD 10,568 thousands).

** The Bank's shareholders are advised, but not obliged, to contribute this income to charity at their discretion.

25 GAINS ON SALE OF INVESTMENTS AND SUKUK - NET

	2017 BD '000	2016 BD '000
Net gain on sale of:		
Development properties*	**4,771**	12,130
Fair value through equity investments	**1,294**	-
Other investments	**229**	398
Fair value through profit or loss investments	**202**	2,611
Sukuk	**10**	14
	6,506	15,153

* Sales: BD 23,152 thousands (2016: BD 49,131 thousands) and cost: BD 18,381 thousands (2016: BD 37,001 thousands).

26 INCOME FROM INVESTMENTS

	2017 BD '000	2016 BD '000
Gain / (loss) from fair value through profit or loss investments	**1,532**	(128)
Rental income from investments in real estate	**213**	1,947
	1,745	1,819

27 FEES, COMMISSION AND OTHER INCOME - NET

	2017 BD '000	2016 BD '000
Financing and transaction related fees and commission	**4,613**	5,953
Other income*	**7,691**	1,751
Fiduciary and other fees	**155**	225
	12,459	7,929

* This includes a sale of a facility to a third party resulting in an income of BD 1,594 thousands (2016: BD nil). In addition, the Group recovered excess amount of BD 3,933 thousands (2016: BD nil) over acquired values from settlement of non-performing financing facilities.

28 TOTAL COMPREHENSIVE INCOME

	2017 BD '000	2016 BD '000
Net profit for the year	**18,055**	16,096
Unrealized gain reclassified to consolidated income statement on disposal of fair value through equity investments	**(246)**	(82)
Unrealised gain on fair value through equity investments	**-**	675
Changes in fair value of investments in real estate	**(159)**	(19)
Foreign currency re-translation	**(211)**	(4)
Other comprehensive income for the year	**(616)**	570
Total comprehensive income for the year	**17,439**	16,666
Attributable to:		
Equity holders of the Bank	**17,483**	16,778
Non-controlling interest	**(44)**	(112)
	17,439	16,666

29 RELATED PARTY TRANSACTIONS

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

The balances with related parties at 31 December 2017 and 31 December 2016 were as follows:

	2017				
	Associates and joint ventures BD '000	***Major shareholders BD '000***	***Directors and related entities BD '000***	***Senior management BD '000***	***Total BD '000***
Assets:					
Cash and balances with banks and Central Bank	**-**	**92**	**-**	**-**	**92**
Murabaha financing	**9,084**	**-**	**-**	**235**	**9,319**
Mudaraba financing	**3,104**	**-**	**4,163**	**-**	**7,267**
Ijarah Muntahia Bittamleek	**-**	**-**	**1,674**	**647**	**2,321**
Musharaka financing	**-**	**-**	**35**	**-**	**35**
Other assets	**94**	**-**	**201**	**36**	**331**
Liabilities and equity of investment accountholders:					
Wakala payables to non-banks	**1,860**	**17,295**	**426**	**2,314**	**21,895**
Current accounts	**306**	**438**	**775**	**158**	**1,677**
Equity of investment accountholders	**-**	**-**	**555**	**200**	**755**
Other liabilities	**55**	**98**	**6**	**19**	**178**
Contingent liabilities and commitments	**1,261**	**22**	**-**	**-**	**1,283**
Equity:					
Transition adjustment	**12,317**	**-**	**-**	**-**	**12,317**

Notes To The Consolidated Financial Statements (continued)

29 RELATED PARTY TRANSACTIONS (continued)

	2016				
	Associates and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Assets:					
Cash and balances with banks and Central Bank	-	181	-	-	181
Murabaha and Wakala receivables from banks	-	6,786	-	-	6,786
Murabaha financing	25,172	-	-	115	25,287
Mudaraba financing	1,885	-	2,137	-	4,022
Ijarah Muntahia Bittamleek	-	-	143	226	369
Musharaka financing	-	-	45	-	45
Other assets	947	2	108	24	1,081
Liabilities and equity of investment accountholders:					
Wakala payables to non-banks	4,235	10,505	48	1,134	15,922
Current accounts	343	9	1,331	132	1,815
Equity of investment accountholders	-	-	825	135	960
Other liabilities	60	-	-	5	65
Contingent liabilities and commitments	743	-	-	-	743

The income and expenses in respect of related parties included in the consolidated income statement are as follows:

	2017				
	Associates and joint ventures BD '000	***Major shareholders BD '000***	***Directors and related entities BD '000***	***Senior management BD '000***	***Total BD '000***
Income:					
Income from financing contracts	**-**	**8**	**227**	**23**	**258**
Share of profits from associates	**786**	**-**	**-**	**-**	**786**
Expenses:					
Profit on Murabaha and Wakala payables to banks	**-**	**16**	**-**	**-**	**16**
Profit paid on Wakala from non-banks	**69**	**421**	**7**	**22**	**519**
Share of profits on equity of investment account holders	**-**	**-**	**2**	**2**	**4**
Other operating expenses	**-**	**-**	**740**	**-**	**740**
Allowance for credit losses	**6,516**	**-**	**-**	**-**	**6,516**

	2016				
	Associates and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Income:					
Income from financing contracts	-	19	81	6	106
Share of profits from associates	727	-	-	-	727
Expenses:					
Profit paid on Wakala from non-banks	27	380	1	22	430
Share of profits on equity of investment account holders	-	-	3	-	3
Other operating expenses	-	-	593	-	593
Provision for impairment	8,947	-	-	-	8,947

Board of Directors' remuneration for 2017 amounted to BD 415 thousands (2016: BD 389 thousands).

Shari'a Supervisory Boards' remuneration for 2017 amounted to BD 66 thousands (2016: BD 49 thousands).

Compensation of key management personnel, consisting of short-term benefits and non-cash remuneration, for the year was BD 2,981 thousands (2016: BD 2,902 thousands).

30 CONTINGENT LIABILITIES AND COMMITMENTS

	2017 BD '000	2016 BD '000
Contingent liabilities on behalf of customers		
Guarantees	**19,419**	24,993
Letters of credit	**10,767**	20,788
Acceptances	**954**	3,607
	31,140	49,388
Irrevocable unutilised commitments		
Unutilised financing commitments	**81,941**	114,491
Unutilised non-funded commitments	**9,594**	23,308
Commitments towards development cost	**-**	2,951
	91,535	140,750
Forward foreign exchange contracts - notional amount	**37,814**	20,280

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	2017 BD '000	2016 BD '000
Within 1 year	**1,204**	1,168
After one year but not more than five years	**1,971**	2,360
	3,175	3,528

31 RISK MANAGEMENT

31.1 INTRODUCTION

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk, and market risk. It is also subject to early settlement risk and operational risks.

The Group's risk function is independent of lines of business and the acting Group Chief Risk Officer reports to the Group Chief Executive Officer with access to the Audit and Risk Committee.

The independent risk control process does not include business risks such as changes in the environment, technology and industry as they are monitored through the Group's strategic planning process.

Board of Directors

The Board of Directors is responsible for setting the overall risk management framework and appetite encompassing the risk strategies and policies.

Executive Committee

The Executive Committee has the responsibility to review and recommend to the Board for approval the overall risk process and policies within the Bank.

Shari'a Supervisory Board

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

Risk Committee

Risk Committee exercises its authority to review and approve proposals within its delegated limits. The Committee recommends the risk policies and framework to the Board. The Committee has a primary role in selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive Management. The Committee discharges its authority after adequate due diligence.

Asset and Liability Committee

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

Audit and Risk Committee

The Audit and Risk Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit and Risk Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, reviewing and monitoring the overall risk framework and profile of the Group as well as its adherence to stipulated policies and limits, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The Audit and Risk Committee reviews Group's accounting and financial practices, risk management reports, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group's external and internal auditors.

Internal Audit

Risk management processes throughout the Group are audited by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Risk Committee.

Risk measurement and reporting systems

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's risk management department is also responsible for identifying risk characteristics inherent in new and existing products, activities and setting exposure limits to mitigate these risks.

Monitoring and controlling risks is primarily performed based on limits established by the Group. 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, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across respective risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Audit and Risk Committee and ALCO, whenever required. The reports include aggregate credit quality and exposures, market risk exposures, operational risk metrics, limit exceptions, liquidity ratios, stress testing, and risk profile changes. A detailed report is produced on a quarterly basis with simplified reports produced on a monthly basis. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess the risks of the Group.

For all levels throughout the Group, specifically 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 daily briefing is given to all relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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.

31.2 CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring which may result in an exposure being moved to a different credit risk grade.
The table below shows the maximum exposure (excluding sovereign exposures) to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of provision, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2017 BD '000	*Gross maximum exposure 2016 BD '000*
ASSETS		
Balances with other banks	**25,618**	30,120
Murabaha receivables from banks	**143,803**	182,452
Corporate Sukuk	**10,324**	28,934
Murabaha financing	**194,265**	209,800
Mudaraba financing	**269,750**	201,409
Ijarah Muntahia Bittamleek	**211,420**	188,217
Musharaka financing	**19,577**	12,419
Assets under conversion	**2,771**	34,458
Financing contracts under other assets	**21,402**	15,495
Total	**898,930**	903,304
Contingent liabilities and commitments	**93,420**	132,216
Total credit risk exposure	**992,350**	1,035,520

In addition to the above, the financing facilities provided to the Government of Bahrain, its related entities and GCC sovereign entities amounts to BD 61,132 thousands (2016: BD 70,718 thousands).

Where financial contracts are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Notes To The Consolidated Financial Statements (continued)

Type of credit risk

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka, Corporate Sukuk and Ijarah Muntahia Bittamleek contracts. Murabaha financing contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabamal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit.

The Group follows an internal rating mechanism for grading relationships for financial assets. All financial assets are assigned a rating in accordance with the defined criteria. The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 7 denoting performing grades and 8 to 10 denoting non-performing grades. Ratings 1 to 4 represent good grade, 5 to 7 represents satisfactory grade and 8 to 10 represents default grade.

For externally rated exposures, credit risk ratings of an authorised Credit Rating Agency (S&P, Moody's, Fitch & Capital Intelligence) are converted into internal ratings which are calibrated with the risk appetite of the Bank. Conversion of an external credit risk rating to an internal risk rating is done to ensure consistency across publicly rated and unrated entities.

The Group endeavours continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

a) The credit quality of balances with banks and Murabaha and Wakala receivables from banks subject to credit risk is as follows:

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**	Total BD '000
Good (R1-R4)	**100,220**	**-**	**-**	**100,220**	164,512
Satisfactory (R5-R7)	**69,203**	**-**	**-**	**69,203**	48,060
Total allowance for credit losses	**(2)**	**-**	**-**	**(2)**	-
	169,421	**-**	**-**	**169,421**	212,572

b) The following tables sets out information about the credit quality of financial assets. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

i) Corporate Sukuk

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**	Total BD '000
Good (R1-R4)	**10,327**	**-**	**-**	**10,327**	28,934
Total allowance for credit losses	**(3)**	**-**	**-**	**(3)**	-
	10,324	**-**	**-**	**10,324**	28,934

ii) Murabaha financing

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**	Total BD '000
Good (R1-R4)	**102,231**	**391**	**-**	**102,622**	98,207
Satisfactory (R5-R7)	**68,843**	**32,666**	**-**	**101,509**	69,867
Default (D8-D10)	**-**	**-**	**16,516**	**16,516**	59,402
Total allowance for credit losses	**(3,738)**	**(10,814)**	**(11,830)**	**(26,382)**	(17,676)
	167,336	**22,243**	**4,686**	**194,265**	209,800

The above table includes profit receivables of BD 2,701 thousands (2016: BD 1,687 thousands) and related allowance for credit losses of BD 13 thousands (2016: BD nil).

iii) Mudaraba financing

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**	Total BD '000
Good (R1-R4)	**186,681**	**5,055**	**-**	**191,736**	137,532
Satisfactory (R5-R7)	**56,906**	**13,724**	**-**	**70,630**	51,680
Default (D8-D10)	**-**	**-**	**25,063**	**25,063**	26,949
Total allowance for credit losses	**(6,099)**	**(4,690)**	**(6,890)**	**(17,679)**	(14,752)
	237,488	**14,089**	**18,173**	**269,750**	201,409

The above table includes profit receivables of BD 2,416 thousands (2016: BD 1,391 thousands) and related allowance for credit losses of BD 24 thousands (2016: BD nil).

iv) Ijarah Muntahia Bittamleek

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**	Total BD '000
Good (R1-R4)	**143,211**	**620**	**-**	**143,831**	148,534
Satisfactory (R5-R7)	**21,783**	**8,823**	**-**	**30,606**	40,205
Default (D8-D10)	**-**	**-**	**42,298**	**42,298**	9,654
Total allowance for credit losses	**(1,079)**	**(492)**	**(3,744)**	**(5,315)**	(10,176)
	163,915	**8,951**	**38,554**	**211,420**	188,217

The above table includes profit receivables of BD 1,090 thousands (2016: BD 449 thousands) and related allowance for credit losses of BD 34 thousands (2016: BD nil).

v) Musharaka

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**	Total BD '000
Good (R1-R4)	**14,190**	**-**	**-**	**14,190**	8,427
Satisfactory (R5-R7)	**4,015**	**1,337**	**-**	**5,352**	3,840
Default (D8-D10)	**-**	**-**	**235**	**235**	152
Total allowance for credit losses	**(133)**	**(43)**	**(24)**	**(200)**	-
	18,072	**1,294**	**211**	**19,577**	12,419

The above table includes profit receivables of BD 385 thousands (2016: BD 114 thousands).

vi) Assets under conversion

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**	Total BD '000
Good (R1-R4)	**2,864**	**-**	**-**	**2,864**	13,198
Satisfactory (R5-R7)	**-**	**-**	**-**	**-**	229
Default (D8-D10)	**-**	**-**	**-**	**-**	22,745
Total allowance for credit losses	**(93)**	**-**	**-**	**(93)**	(1,714)
	2,771	**-**	**-**	**2,771**	34,458

vii) Financial contracts under other assets

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**	Total BD '000
Good (R1-R4)	**2,434**	**-**	**-**	**2,434**	8,853
Satisfactory (R5-R7)	**1,887**	**372**	**-**	**2,259**	358
Default (D8-D10)	**-**	**-**	**24,773**	**24,773**	8,700
Total allowance for credit losses	**(149)**	**(41)**	**(7,874)**	**(8,064)**	(2,416)
	4,172	**331**	**16,899**	**21,402**	15,495

The above table includes profit receivables of BD 333 thousands (2016: BD 18 thousands) and related allowance for credit losses of BD 5 thousands (2016: BD nil).

viii) Financing commitments and financial guarantee contracts

	2017				2016
	Stage 1: 12 month ECL BD '000	**Stage 2: Lifetime ECL not credit-impaired BD '000**	**Stage 3: Lifetime ECL credit-impaired BD '000**	**Total BD '000**	Total BD '000
Good (R1-R4)	**85,533**	**5,594**	**-**	**91,127**	94,005
Satisfactory (R5-R7)	**-**	**3,138**	**-**	**3,138**	38,211
Total allowance for credit losses	**(523)**	**(322)**	**-**	**(845)**	-
	85,010	**8,410**	**-**	**93,420**	132,216

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in note 30 except capital commitments.

During the year BD 8,345 thousands (2016: BD 17,803 thousands) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

For the purpose of computing capital adequacy in accordance with Basel III requirements, the amount of credit exposure in excess of 15% of the Group›s regulatory capital to individual counterparties as at 31 December 2017 was BD nil (2016: BD nil).

31.3 LEGAL RISK AND CLAIMS

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2017, legal suits amounting to BD 545 thousands (2016: BD 4,925 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group has also filed counter cases against these parties.

32 CONCENTRATIONS

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

The distribution of assets, liabilities and equity of investment account holders by geographic region and industry sector was as follows:

	Assets	**Liabilities, equity of investment account holders and equity**	**Contingent liabilities and Commitments**	*Assets*	*Liabilities, equity of investment account holders and equity*	*Contingent liabilities and Commitments*
	2017 BD '000	**2017 BD '000**	**2017 BD '000**	*2016 BD '000*	*2016 BD '000*	*2016 BD '000*
Geographic region						
GCC	**1,441,831**	**1,153,987**	**121,365**	1,492,594	1,192,331	174,196
Arab World	**63,454**	**58,224**	**-**	38,355	50,222	13,377
Europe	**33,589**	**61,912**	**47**	49,583	95,056	427
Asia Pacific	**15,247**	**609**	**1,263**	52,459	893	2,138
North America	**15,982**	**1,607**	**-**	9,535	314	-
Others	**19,157**	**9,084**	**-**	38,767	17,578	-
	1,589,260	**1,285,423**	**122,675**	1,681,293	1,356,394	190,138
Equity	**-**	**303,837**	**-**	-	324,899	-
	1,589,260	**1,589,260**	**122,675**	1,681,293	1,681,293	190,138

	Assets	**Liabilities, equity of investment account hoders and equity**	**Contingent liabilities and Commitments**	*Assets*	*Liabilities, equity of investment account hoders and equity*	*Contingent liabilities and Commitments*
	2017 BD '000	**2017 BD '000**	**2017 BD '000**	*2016 BD '000*	*2016 BD '000*	*2016 BD '000*
Industry sector						
Government and public sector	**520,127**	**173,783**	**12,704**	525,865	148,798	33,417
Banks and financial institutions	**230,163**	**321,778**	**1,445**	362,504	310,634	16,582
Real estate	**366,733**	**124,572**	**57,814**	382,136	192,038	72,566
Trading and manufacturing	**76,251**	**16,086**	**17,496**	100,405	64,371	23,395
Aviation	**509**	**6**	**-**	10,245	14,918	-
Individuals	**213,518**	**414,134**	**20,525**	200,220	461,909	8,412
Others	**181,959**	**235,064**	**12,691**	99,918	163,726	35,766
	1,589,260	**1,285,423**	**122,675**	1,681,293	1,356,394	190,138
Equity	**-**	**303,837**	**-**	-	324,899	-
	1,589,260	**1,589,260**	**122,675**	1,681,293	1,681,293	190,138

33 MARKET RISK

Market risk arises from fluctuations in global yields on financial contracts and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

33.1 EQUITY PRICE RISK

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the overall investment exposure of the Bank. This is monitored on an ongoing basis by the Group's Investment Committee and Risk Management.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and fair value through equity investments) solely due to reasonably possible changes in equity prices, is as follows:

	2017			
	10% increase		***10% decrease***	
	Effect on net profit BD '000	***Effect on equity BD '000***	***Effect on net profit BD '000***	***Effect on equity BD '000***
Quoted:				
Saudi Arabia	**590**	**-**	**(590)**	**-**
Unquoted	**10,349**	**329**	**(10,349)**	**(329)**

	2016			
	10% increase		*10% decrease*	
	Effect on net profit BD '000	*Effect on equity BD '000*	*Effect on net profit BD '000*	*Effect on equity BD '000*
Quoted:				
Bahrain	-	166	(166)	-
Saudi Arabia	776	-	(776)	-
Singapore	-	231	(231)	-
Unquoted	10,765	270	(10,765)	(270)

33.2 PROFIT RETURN RISK

Profit rate risk arises from the possibility that changes in profit rates will affect the future profitability or the fair values of financial assets. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2017			
	Change in rate %	***Effect on net profit BD '000***	***Change in rate %***	***Effect on net profit BD '000***
Bahraini dinars	**0.10**	**192**	**(0.10)**	**(192)**
US dollars	**0.10**	**201**	**(0.10)**	**(201)**

	2016			
	Change in rate %	*Effect on net profit BD '000*	*Change in rate %*	*Effect on net profit BD '000*
Bahraini dinars	0.10	380	(0.10)	(380)
US dollars	0.10	193	(0.10)	(193)

33.3 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Audit and Risk Committee as well as ALCO to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2017 and 2016.

34 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Risk and Audit Committee as well as ALCO of the Group.

The table below summarises the expected maturity profile of the Group's assets and liabilities as at 31 December 2017 and 2016:

	31 December 2017				
	Upto 3 months BD '000	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
ASSETS					
Cash and balances with banks and the Central Bank	**66,351**	**-**	**-**	**-**	**66,351**
Sovereign Sukuk	**8,155**	**28,956**	**150,521**	**170,146**	**357,778**
Murabaha & Wakala receivables from banks	**143,803**	**-**	**-**	**-**	**143,803**
Corporate Sukuk	**1,871**	**3,121**	**5,332**	**-**	**10,324**
Murabaha financing	**34,395**	**84,444**	**30,048**	**48,493**	**197,380**
Mudaraba financing	**38,205**	**86,338**	**95,689**	**87,861**	**308,093**
Ijarah Muntahia Bittamleek	**4,820**	**1,494**	**98,459**	**107,375**	**212,148**
Musharaka	**93**	**10,337**	**5,558**	**3,204**	**19,192**
Assets under conversion	**1,562**	**61**	**108**	**1,040**	**2,771**
Non-trading investments	**1,931**	**-**	**109,394**	**-**	**111,325**
Investments in real estates	**-**	**-**	**52,431**	**-**	**52,431**
Development properties	**-**	**-**	**6,448**	**-**	**6,448**
Investment in associates	**-**	**-**	**16,835**	**-**	**16,835**
Other assets	**20,534**	**1,073**	**35,389**	**1,414**	**58,410**
Goodwill	**-**	**-**	**-**	**25,971**	**25,971**
	321,720	**215,824**	**606,212**	**445,504**	**1,589,260**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Murabaha and Wakala payables to banks	**147,178**	**7,463**	**-**	**-**	**154,641**
Wakala payables to non-banks	**59,785**	**59,785**	**478,178**	**100**	**597,848**
Current accounts	**70,281**	**86,345**	**127,260**	**-**	**283,886**
Liabilities under conversion	**-**	**239**	**2,447**	**43**	**2,729**
Murabaha term financing	**14,892**	**45,904**	**16,779**	**2,211**	**79,786**
Other liabilities	**8,871**	**14,500**	**24,166**	**115**	**47,652**
Equity of investment accountholders	**25,702**	**35,078**	**58,101**	**-**	**118,881**
	326,709	**249,314**	**706,931**	**2,469**	**1,285,423**

Notes To The Consolidated Financial Statements (continued)

34 LIQUIDITY RISK (continued)

	31 December 2016				
	Upto 3 months BD '000	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
ASSETS					
Cash and balances with banks and the Central Bank	120,623	4,800	6,567	-	131,990
Sovereign Sukuk	3,091	23,371	140,624	191,183	358,269
Murabaha and Wakala receivables from banks	182,452	-	-	-	182,452
Corporate Sukuk	8,731	3,910	16,293	-	28,934
Murabaha financing	68,416	41,165	36,673	67,433	213,687
Mudaraba financing	27,913	79,141	72,199	73,554	252,807
Ijarah Muntahia Bittamleek	2,689	1,615	79,273	104,908	188,485
Musharaka	66	-	8,811	3,427	12,304
Assets under conversion	-	-	27,688	9,328	37,016
Non-trading investments	1,947	-	120,126	-	122,073
Investments in real estates	-	-	48,930	2,933	51,863
Development properties	2,943	-	14,838	-	17,781
Investment in associates	-	-	7,531	3,030	10,561
Other assets	13,066	1,182	6,267	6,745	27,260
Goodwill	-	-	-	25,971	25,971
Assets held-for-sale	19,840	-	-	-	19,840
	451,777	155,184	585,820	488,512	1,681,293
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Murabaha and Wakala payables to banks	-	124,635	7,397	-	132,032
Wakala payables to non-banks	72,344	72,344	578,751	-	723,439
Current accounts	64,542	85,984	129,083	-	279,609
Liabilities under conversion	217	-	-	-	217
Murabaha term financing	48,889	-	33,744	9,204	91,837
Other liabilities	9,809	14,713	24,521	-	49,043
Liabilities relating to assets classified as held-for-sale	11,421	-	-	-	11,421
Equity of investment accountholders	14,758	20,454	33,584	-	68,796
	221,980	318,130	807,080	9,204	1,356,394

Notes To The Consolidated Financial Statements (continued)

34 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted payment obligation:

	31 December 2017					
	On demand BD '000	*Upto 3 months BD '000*	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha and Wakala payables to banks	**-**	**145,466**	**9,175**	**-**	**-**	**154,641**
Wakala payables to non-banks	**-**	**265,043**	**261,076**	**71,629**	**100**	**597,848**
Current accounts	**283,886**	**-**	**-**	**-**	**-**	**283,886**
Equity of investment accountholders	**-**	**118,881**	**-**	**-**	**-**	**118,881**
Liabilities under conversion	**-**	**-**	**239**	**2,447**	**43**	**2,729**
Murabaha term financing	**-**	**14,892**	**45,904**	**16,779**	**2,211**	**79,786**
Unutilised commitments	**-**	**6,809**	**28,329**	**36,516**	**19,881**	**91,535**
Contingent liabilities	**-**	**46,922**	**12,406**	**12,801**	**-**	**72,129**
Other financial liabilities	**-**	**5,637**	**2,634**	**928**	**115**	**9,314**
Profit on financial liabilities	**-**	**848**	**4,763**	**5,248**	**23**	**10,882**
	283,886	**604,498**	**364,526**	**146,348**	**22,373**	**1,421,631**

	31 December 2016					
	On demand BD '000	*Upto 3 months BD '000*	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha and Wakala payables to banks	-	124,635	7,397	-	-	132,032
Wakala payables to non-banks	-	313,518	328,513	81,408	-	723,439
Current accounts	279,609	-	-	-	-	279,609
Equity of investment accountholders	28,067	40,729	-	-	-	68,796
Liabilities under conversion	217	-	-	-	-	217
Murabaha term financing	-	48,889	-	33,744	9,204	91,837
Unutilised commitments	8,999	12,122	46,577	44,729	25,372	137,799
Contingent liabilities	35,318	24,531	5,980	10,318	-	76,147
Other financial liabilities	-	7,985	6,246	528	-	14,759
Profit on financial liabilities	-	761	5,015	6,329	-	12,105
Liabilities relating to assets classified as held-for-sale	-	11,421	-	-	-	11,421
	352,210	584,591	399,728	177,056	34,576	1,548,161

35 SEGMENT INFORMATION

PRIMARY SEGMENT INFORMATION

For management purposes, the Group is organised into four major business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
Capital	Manages the undeployed capital of the Group by investing it in high quality financial contracts, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

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

Segment information is disclosed as follows:

	31 December 2017				
	Banking BD '000	***Treasury BD '000***	***Investments BD '000***	***Capital BD '000***	***Total BD '000***
Operating income	**30,757**	**22,030**	**8,526**	**877**	**62,190**
Segment result	**645**	**17,540**	**(1,064)**	**934**	**18,055**
Segment assets	**744,264**	**612,414**	**198,249**	**34,333**	**1,589,260**
Segment liabilities, and equity	**915,779**	**330,513**	**16,954**	**326,014**	**1,589,260**

Goodwill resulting from BMI acquisition is allocated to banking segment.

	31 December 2016				
	Banking BD '000	*Treasury BD '000*	*Investments BD '000*	*Capital BD '000*	*Total BD '000*
Operating income	27,951	13,369	20,319	1,361	63,000
Segment result	(10,062)	11,957	14,723	(522)	16,096
Segment assets	706,572	678,896	236,338	59,487	1,681,293
Segment liabilities, and equity	1,021,629	317,079	50,312	292,273	1,681,293

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

36 FIDUCIARY ASSETS

Funds under management at the year end amounted to BD 70,484 thousands (2016: BD 105,174 thousands). These assets are held in a fiduciary capacity, measured at cost and are not included in the consolidated statement of financial position.

37 SHARI'A SUPERVISORY BOARD

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

38 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of sovereign sukuk is BD 361,172 thousands having a carrying value of BD 357,778 thousands and the fair value of corporate sukuk is BD 10,339 thousands having a carrying value of BD 10,324 thousands. The estimated fair values of other financial assets are not materially different to their carrying values as of 31 December 2017 and 2016.

39 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group received Shari'a prohibited income totalling BD 397 thousands (2016: BD 412 thousands). These include income earned from the conventional financing and investments due to acquiring BMI and BSB, penalty charges from customers and interest on current account balances held with correspondent banks. These funds were allocated to charitable contributions after deducting recovery expenses of these funds.

40 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 328 thousands (2016: BD 267 thousands) on account of charitable donations.

41 ZAKAH

Pursuant to a resolution of the shareholders in an Extra-ordinary General Meetings (EGM) held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognized in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2017 has been determined by the Shari'a supervisory board as 2.5 fils (2016: 2.5 fils) per share.

42 CAPITAL ADEQUACY

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

	2017 BD '000	*2016 BD '000*
Common equity Tier 1 capital	**253,469**	273,576
Additional Tier 1 capital	**9**	5
Tier 2 capital	**39,861**	29,873
Total capital	**293,339**	303,454
Credit risk-weighted exposures	**1,261,939**	1,314,315
Market risk-weighted exposures	**2,331**	8,053
Operational risk-weighted exposures	**104,310**	85,710
Total risk-weighted assets	**1,368,580**	1,408,078
Investment risk reserve	**-**	2
Total adjusted risk weighted exposures	**1,368,580**	1,408,076
Total capital ratio	**21.43%**	21.55%
Minimum requirement	**12.5%**	12.5%

43 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Group are covered by deposit protection schemes established by the CBB. Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A periodic contribution as mandated by the CBB is paid by the Group under this scheme.

44 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the current year presentation. Such reclassifications did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.

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