

Moving Forward
2017 ANNUAL REPORT

Contents

02	At a Glance
03	Vision, Mission and Values
04	Financial Highlights
06	Joint Message
09	Review of Operations
12	Financial Review
14	Subsidiaries and Associates
17	Board of Directors
20	Sharia Supervisory Board
21	Executive Management
24	Corporate Governance
33	Risk Management
35	Report of the Sharia Supervisory Board
37	Directors' Report
39	Independent Auditor's Report
40	Consolidated statement of financial position
41	Consolidated Income Statement
42	Consolidated Statement of Changes in Owners' Equity
43	Consolidated Statement of Cash Flows
44	Consolidated Statement of Changes in Restricted Investment Accounts
45	Notes to the Consolidated Financial Statements
81	Share Information
84	Corporate Information

At a Glance

Ithmaar Holding B.S.C. (Ithmaar Holding, Ithmaar or the Group) is a Bahrain-based holding company that is licensed and regulated as a Category 1 Investment Firm by the Central Bank of Bahrain (CBB) and listed on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market.

Ithmaar Holding is a subsidiary of Dar Al-Maal Al-Islami Trust (DMIT), and has a paid-up capital of US\$757.69 million.

Ithmaar Holding was established after the shareholders of formerly named Ithmaar Bank B.S.C. approved in March 2016 plans to significantly transform the group's operations. The new Ithmaar group structure is designed to assist in realising long-term strategies to focus and grow the core business and to ensure independent and focused management of its investment and other assets.

Ithmaar Holding retains 100 percent ownership of all assets formerly owned by Ithmaar Bank B.S.C. through two wholly-owned subsidiaries: Ithmaar Bank B.S.C. (closed) (Ithmaar Bank or the Bank), an Islamic retail bank subsidiary which holds the core retail banking business, and IB Capital B.S.C. (closed) (IB Capital), an investment subsidiary, which holds investments and other non-core assets. The two subsidiaries are licensed and regulated by the CBB.

Ithmaar Bank provides a diverse range of Sharia-compliant products and services that cater to the financing and investment needs of individuals and institutions. The Bank also maintains a presence in overseas markets through its subsidiary, Faysal Bank Limited (Pakistan). IB Capital maintains a presence in regional and overseas markets through its investments including in subsidiaries, associated companies and other investments. These include Bahrain-based BBK (Banking), Solidarity (Islamic insurance), Naseej (Infrastructure), Ithmaar Development Company Limited (Real Estate) and Ithraa Capital (Saudi Arabia).

Vision, Mission and Values

Our Vision

An ethical, innovative Islamic financial institution focused on creating and developing value and actively contributing to social development.

Our Mission

To invest in a portfolio of sustainable investments to enhance shareholder value and encourage future growth while efficiently realising market opportunities.

Our Values

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

Financial Highlights

	2017	2016	2015	2014	2013
Net profit/(loss) [US\$ 000]	(72,401)	13,798	(46,395)	(8,847)	(79,327)
Net profit/(loss) attributable to shareholders [US\$ 000]	(84,711)	3,279	(60,797)	(15,012)	(80,372)
Net income before provision for impairment and overseas taxation [US\$ 000]	22,060	70,045	77,958	28,962	4,805
Total equity attributable to shareholders [US\$ 000]	355,330	427,415	414,223	523,386	531,568
Book value per share [US cents]	12	15	14	18	19
Earnings per share [US cents]	(2.91)	0.11	(2.09)	(0.52)	(2.76)
Total assets [US\$ 000]	8,611,359	8,341,310	8,138,641	7,860,904	7,403,135
Funds under management [restricted investment accounts] [US\$ 000]	257,133	290,059	360,073	379,711	479,311
Return on average shareholders' equity	-21.64%	0.78%	-12.97%	-2.85%	-14.34%
Return on average assets	-0.85%	0.17%	-0.58%	-0.12%	-1.08%
Return on average paid in capital	-11.62%	0.45%	-8.36%	-2.06%	-11.49%
Market price per share on 31 December [US cents]	13.5	12.5	14.5	16	23
Market price per share/Book value per share on 31 December	1.11	0.85	1.02	0.89	1.21

Joint Message

In the name of Allah, most Gracious, most Merciful



HRH Prince Amr Mohammed Al Faisal
Chairman



Ahmed Abdul Rahim
Chief Executive Officer

Dear Shareholders,

We are pleased to announce that, with the new group structure fully implemented at the start of 2017, Ithmaar Holding efforts during the year were directed at taking important steps towards significantly transforming operations in line with the strategic decisions taken by shareholders in 2016.

Some of the most important steps included the successful listing of Ithmaar Holding shares on the Dubai Financial Market on 29 January 2018. The additional listing, which added a new key market alongside our listing on the Bahrain Bourse and Boursa Kuwait, opens trading on Ithmaar Holding's shares to new, exciting markets. This, in turn, creates new investment opportunities for investors in the Gulf Cooperation Council (GCC) markets. Ithmaar Holding is traded, on all three stock exchanges, under the ticker ITHMR.

Ithmaar Holding's two wholly-owned subsidiaries, Ithmaar Bank and IB Capital, and their various subsidiaries, associates and other investments, also took important steps throughout 2017 to support the Group's transformation.

Ithmaar Bank, for example, embarked on multiple strategic initiatives designed to bring about transformational change to the Bank. The initiatives, some of which are in the process of implementation, include upgrading the core banking system and enhancing the e-Banking offering to make the Bank more customer-centric as it embarks on its next growth phase, as well as introducing a new consolidation, budgeting and planning solution; and implementing an application to meet new accounting and regulatory requirements: FAS 30.

Ithmaar Bank's flagship subsidiary, Faysal Bank Limited, already one of the most prominent retail banks in Pakistan, continued its remarkable growth in 2017, adding 50 new branches throughout the year to bring the total number to more than 400 branches.

These achievements are paving the way for the Group's continued transformation, and set the stage for a return to sustainable profitability. In particular, we are pleased to note that our financial results for 2017 show that the continued focus on our core retail banking business is paying off, even if the overall results are not immediately obvious as these have been impacted by non-core business.

Although our total income, at US\$392.46 million for the year ended 31 December 2017, decreased by five percent from the total income

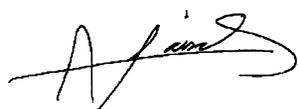
of US\$413.17 million reported for 2016, our income from core retail banking business grew by 72.3 percent, with the Group's share of income from unrestricted investment accounts as a Mudarib increasing to US\$76.86 million for the year ended 31 December 2017, compared to US\$44.60 million for 2016.

During 2017, Ithmaar Holding initiated an active programme to sell specific investments and, accordingly, these investments were presented as assets classified as Available For Sale in the consolidated statement of financial position. This, as well as impairment provisions and the unrealised foreign exchange losses, contributed to a net loss of US\$72.40 million for year ended 31 December 2017, compared to a net profit of US\$13.80 million reported for 2016. Net loss attributable to equity holders for 2017 was US\$84.71 million, compared to a net profit US\$3.28 million reported for 2016.

The 2017 results, nevertheless, demonstrate that our unwavering focus on core retail banking business is delivering tangible results. The Ithmaar Holding balance sheet, for example, is stable and continues to grow. Total assets stood at US\$8.61 billion as at 31 December 2017, a 3.2 percent increase compared to US\$8.34 billion as at 31 December 2016. Murabaha and other financings also increased to US\$4.29 billion as at 31 December 2017, a nine percent increase compared to US\$3.93 billion as at 31 December 2016. The equity of unrestricted investment account holders, at US\$2.83 billion as at 31 December 2017, also increased by 2.1 percent compared to US\$2.77 billion as at 31 December 2016.

Ithmaar Holding's 2017 performance confirms that we are, indeed, on track to realising our shared vision of transforming the Group's operations towards sustainable profitability by focusing on our core retail banking operations.

This would not have been possible without the continued support of our shareholders and the guidance of our regulators. We take this opportunity to thank the Board and all our shareholders, as well as the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, the Bahrain Bourse, Boursa Kuwait and the Dubai Financial Market.



Amr Mohammed Al Faisal
Chairman



Ahmed Abdul Rahim
Chief Executive Officer

Review of Operations

Review of Operations

Business Strategy

Ithmaar Holding's strategy revolves around the new structure.

The new Group structure is designed to assist in realising long-term strategies to focus and grow the core business and to ensure independent and focused management of its investment and other assets. The Group has always considered the changing market dynamic and used this as an opportunity to transform itself.

The new structure is an important step in the transformation of the Group and provides greater insight into the strength of its core retail banking operations and further facilitating the focused management of the Group's investment and non-core assets.

The new structure will allow Ithmaar to take advantage of new growth opportunities in the region and help generate greater value to shareholders.

Principal activities

The principal activities of Ithmaar include the following:

- To own and manage its subsidiaries, associated companies and major investments or to participate in the management of other companies in which it has controlling interests, and to provide the necessary support for such companies;
- To offer financing and guarantees to its subsidiaries and associated companies;
- To own real estate and other assets necessary for its business; and
- To own industrial property rights including patents, trade and industrial marks, concession and other intellectual rights, and to use and lease them to its subsidiaries and associated companies or to other companies.

Economic outlook

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

In 2017, global economic growth is estimated to have reached 3.0 per cent, a significant acceleration compared to growth of just 2.4 per cent in 2016, and the highest rate of global growth recorded since 2011.

Labour market indicators continue to improve in a broad spectrum of countries, and roughly two-thirds of countries worldwide experienced stronger growth in 2017 than in the previous year. At the global level, growth is expected to remain steady at 3.0 per cent in 2018 and 2019.

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

Bahrain

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

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

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

The Gulf Cooperation Council (GCC) and MENA Region

The GCC region's economy is expected to grow near 2.5 percent in 2018. Stable energy prices will underpin this growth, with the price for Brent crude oil fluctuating in a tight range of US\$ 50-60 per barrel. Liquidity in the MENA region has always been closely associated with movement in oil prices. Low oil price environment is putting pressure on government revenues, while spending continues to be aligned with the long term vision of the regional governments. The sector remained resilient until 2015, but government decisions to draw down deposits and issue local denominated notes to fund deficits has drained out liquidity from the financial system.

Review of Operations Continued

Pakistan

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

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

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

Financial Position and Assets Composition

Major business-focused Initiatives

Ithmaar Bank (Bahrain)

Ithmaar Bank is one of the largest Islamic retail banks in the Kingdom of Bahrain.

2017 strategic initiatives

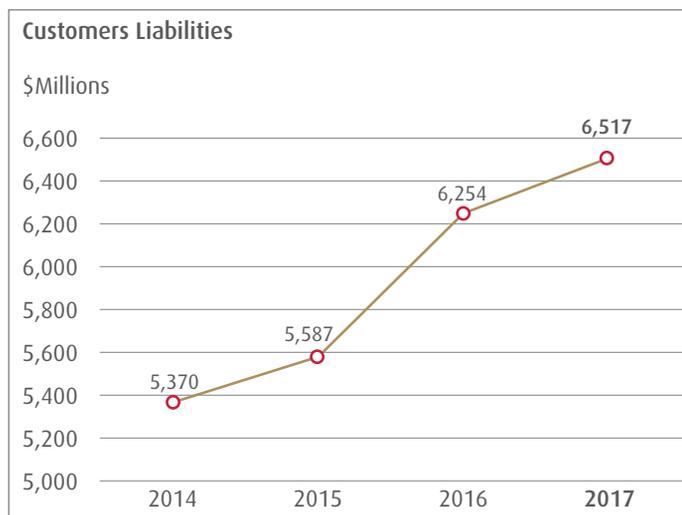
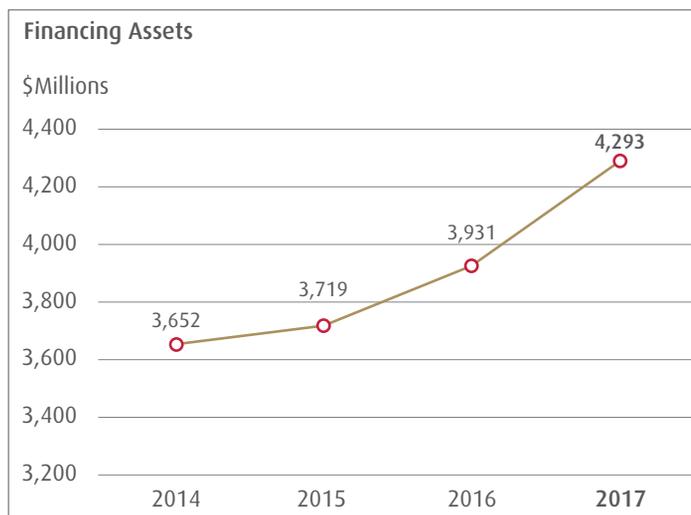
In order to be a disruptive financial institution with a customer-centric approach, Ithmaar Bank is in process of implementing the following initiatives:

Core banking

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

eBanking

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



Consolidation, Budgeting & Planning

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

FAS 30 (AAOIFI equivalent to IFRS 9) project

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

Faysal Bank Limited (Pakistan)

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

The development of the China Pakistan Economic Corridor (CPEC) with over US\$46 billion of investment in Pakistan has provided significant new business opportunities and FBL is actively participating in the same.

FBL is also implementing the following initiatives:

Retail business

The Bank is focusing on expanding its reach and increasing its customer base by branch expansion and the use of technology for virtual expansion including:

- FBL has expanded its branches network to 404 by 31 December 2017 by opening 50 branches during 2017
- Branches have been provided with mobile biometric solutions to enable onsite account opening
- Euronet is being implemented for unification of Cards platform and to bring operational efficiencies.

Investing in our people:

In 2017, Ithmaar Holding and its two wholly-owned subsidiaries, Ithmaar Bank and IB Capital, commissioned the Bahrain Institute of Banking and Finance (BIBF) to deliver an interactive workshop for members of the Group's Board of Directors and Executive Management teams. The workshop, which was designed to highlight the importance of good corporate governance while reinforcing Ithmaar's principles of high-quality governance, aimed to help protect and further grow shareholder value. It was attended by 15 members of the Board of Directors and Executive Management Team.

Another workshop, focused on Cyber Security and IT Trends Awareness, was also arranged for members of the Board of Directors and Executive Management Team in 2017. This workshop also provided participants an update on the latest IT Trends and their impact on the

business world. It was also attended by 15 members of the Board of Directors and Executive Management Team.

In 2017, the Ithmaar Holding CEO and other executives attended a training session focusing on Protected Cell Companies and investment limited partnership.

Award winning performance

Ithmaar Bank was presented the Arab Eagle Award for Corporate Social Responsibility (CSR) by the Tatweej Academy in recognition of its continuous efforts in support of the community. During the award ceremony, which was held in Dubai and organised by the Tatweej Academy for Excellence in the Arab Region, Ithmaar Group Chairman His Royal Highness Prince Amr Al Faisal was honoured for the Group's CSR initiatives and presented with the Arab Eagle Award.

The Award was received on his behalf by Ithmaar Group Chief Executive Officer, Ahmed Abdul Rahim, from Major General Dr. Abdul Qudous Al Obaidli, Chairman of the Emirates Strategic Planning Association and Assistant Commander-in-Chief of Quality and Excellence at the Dubai Police. Ithmaar was nominated for the Arab Eagle Award by the Union of Arab Bank based on the prestigious international award that Ithmaar Bank received in 2016 at the World Islamic Banking Conference (WIBC) in recognition of its CSR and Financial Disclosure.

In 2017, Ithmaar Bank won several prestigious awards including Best CSR Award at the Islamic Banks CSR Conference and Award, Best Islamic Retail Bank in Bahrain from the Union of Arab Banks and the World Union of Arab Bankers, and Best Innovation in Retail Banking (Bahrain) and Best Islamic Bank of the Year (Bahrain) from the UK-based International Banker's 2017 Banking Awards.

Compliance with AAOIFI

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

The Group has certain assets, liabilities and related income and expenses which are not Sharia-compliant as these existed before Ithmaar converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan for the conversion of assets and liabilities which are not Sharia-Compliant. The Sharia Supervisory Board continues to monitor the implementation of this plan.

Financial Review

Financial Performance

Ithmaar Holding's financial results show that the continued focus on core retail banking business is paying off, even if the overall results are not immediately obvious as these have been impacted by non-core business. Total income, at US\$392.46 million for the year ended 31 December 2017, decreased by five percent from the total income of US\$413.17 million reported for the year ended December 31 December 2016, mainly due to impairment provisions, unrealised foreign exchange losses as well as well as reduction of income from assets being classified as Available.

Whereas the income from core retail banking business grew by 72.3 percent, with the Group's share of income from unrestricted investment accounts as a Mudarib, increasing to US\$76.86 million for the year ended 31 December 2017, compared to US\$44.60 million for 2016.

Financial Position

The balance sheet continues to grow. Total assets stood at US\$8.61 billion as at 31 December 2017, a 3.2 percent increase compared to US\$8.34 billion as at 31 December 2016.

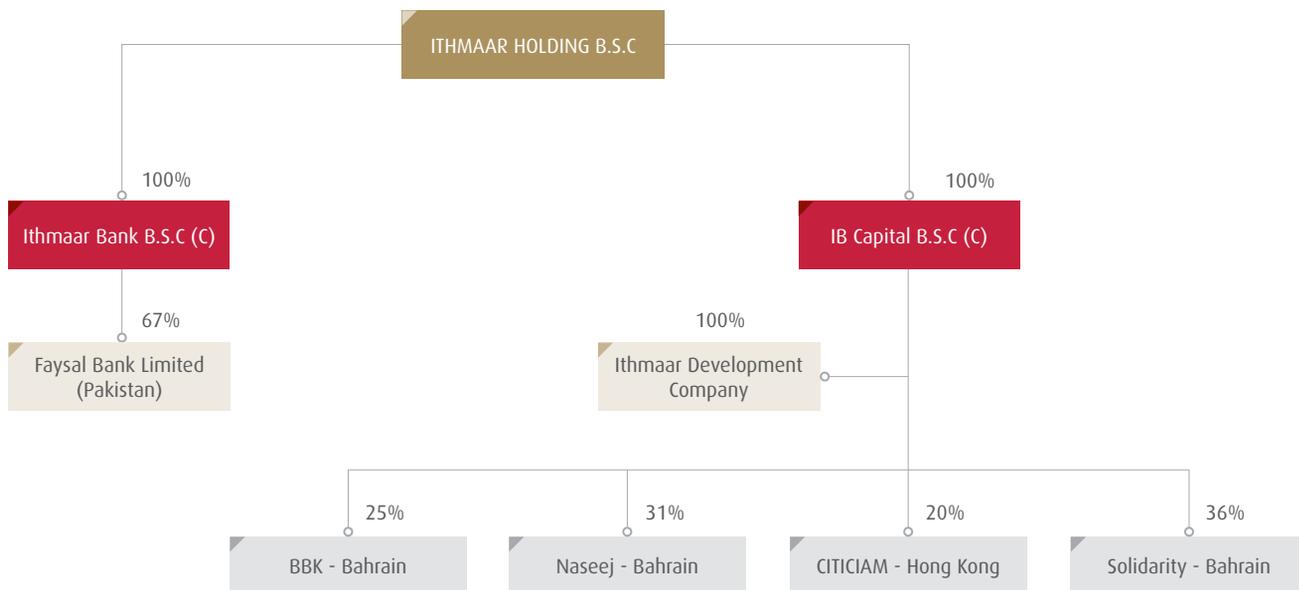
Murabaha and other financings also increased to US\$4.29 billion as at 31 December 2017, a 9.2 percent increase compared to US\$3.93 billion as at 31 December 2016. The equity of unrestricted investment accountholders, at US\$2.83 billion as at 31 December 2017, also increased by 2.1 percent compared to US\$2.77 billion as at 31 December 2016.

During the year ended 31 December 2017, Ithmaar Group initiated an active programme to sell specific investments. Accordingly, these investments were consequently presented as assets classified as Available For Sale in the consolidated statement of financial position.

Subsidiaries and Associates

Group Structure

Key Subsidiaries, Associates and Other Major Investments



Key operating subsidiaries

Ithmaar Bank B.S.C. (c)

Ithmaar Bank is one of the largest Islamic retail banks in the Kingdom of Bahrain. The Bank, including its predecessors, has been in operation for more than 30 years.

The strategy for the Bank is to maintain its dominant position in the Kingdom and aim for higher progress. The strategies to achieve Ithmaar Bank's medium-term objective of sustainable profitability includes a firm focus on its core business growth with continued enhancement of customer experience and improving efficiency levels. The long term objective is to be a premier Islamic retail bank in the Gulf Cooperation Council (GCC) region.

The standalone (Bahrain Operations) total assets and total shareholders' equity as of 31 December 2017 amounted to US\$ 4.34 billion and US\$ 327.4 million respectively.

Ithmaar Holding outsources the following functions from its wholly-owned subsidiary, Ithmaar Bank B.S.C. (c), which in turn provides the required services under an intra-group outsourcing arrangement:

- Information Technology
- Financial Control
- Compliance and AML
- Risk Management
- Internal Audit
- Human Resources
- Internal Sharia
- Legal and Corporate Secretary
- Corporate Communication
- Administration

Faysal Bank Limited (FBL)

FBL is one of the most prominent and fastest growing retail banks in Pakistan.

FBL, including its predecessors, has been in operations for the last 30 years. FBL shares are listed on the Pakistan Stock Exchange. FBL is mainly engaged in corporate, commercial and consumer banking activities.

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

IB Capital B.S.C. (c)

IB Capital maintains a presence in regional and overseas markets through its investments in subsidiaries and associated companies. All non-core assets (subsidiaries, associates and other major investments and financing to shareholders / related parties) of the erstwhile Ithmaar Bank B.S.C. have been transferred to IB Capital as part of reorganisation effective 2 January 2017. These include Bahrain-based BBK (Banking), Solidarity (an Islamic insurance company), Naseej (Infrastructure) and Ithmaar Development Company Limited (Real Estate).

The strategies to achieve IB Capital's objective of focused management of non-core assets (investments and other assets) include managing these assets and identifying and evaluating opportunities to exit at acceptable prices.

The total assets and total shareholders' equity as of 31 December 2017 amounted to US\$ 1.8 billion and US\$14.4 million respectively.

Key operating subsidiary of IB Capital

Ithmaar Development Company (IDC)

IDC is a wholly-owned subsidiary of the Group which was established in 2007 with the objective of developing and managing major development, real estate and other infrastructure projects. IDC's flagship projects include Dilmunia, a 1.25 million square meters manmade island off the coast of Bahrain.

The current strategy of IDC focuses on the infrastructure development relating to Dilmunia project as well as providing development management services to Naseej B.S.C. (c).

Subsidiaries and Associates Continued

Key operating associates and other major investments of IB Capital

BBK B.S.C. (BBK)

BBK is one of the largest commercial banks in Bahrain with a presence in Kuwait, India and the United Arab Emirates. BBK provides a full range of lending, deposit, treasury and investment services, and has established a number of subsidiaries in the areas of brokerage, financial services and credit cards.

BBK's strategy focuses on growth of its retail banking business through branch expansion in Gulf Cooperation Council and international markets, mainly India.

The total assets and total shareholders' equity as of 31 December 2017 amounted to US\$10 billion and US\$1.32 billion respectively.

Naseej B.S.C. (c) (Naseej)

Naseej is the MENA region's first fully-integrated real estate and infrastructure development company, encompassing the entire value chain from concept to completion.

Naseej's core activities comprise design and master planning; development and construction; building components; mortgage facilitation; and asset management. Naseej was established by prominent private and public sector investors to act as a pioneering catalyst for addressing the region's affordable housing development needs.

Naseej's strategy focuses on pursuing property development and investment opportunities in affordable housing and retail real estate sectors in the MENA region besides working on the Private Public Partnership Housing Project (PPP) in Bahrain. Apart from the PPP, Naseej is also involved in major residential projects in Bahrain like Yasmeenat Saar and Jumana.

The total assets and total shareholders' equity as of 30 September 2017 amounted to US\$436 million and US\$347 million respectively.

Solidarity Group Holdings B.S.C. (c) (Solidarity)

Solidarity is one of the largest takaful (Islamic insurance) companies in the region. Solidarity provides general and family takaful products and services. Solidarity operates through subsidiaries in Bahrain, Jordan, and other business interests in Saudi Arabia. Solidarity acquired 71% of Al Ahlia Insurance (one of the oldest & largest insurance companies in Bahrain) in December 2016 and the merger was completed in 2017.

Solidarity's strategy focuses on providing general takaful services both locally and in key international markets, mainly Jordan and Saudi Arabia.

The total assets and total shareholders' equity as of 31 December 2017 amounted to US\$397 million and US\$187 million respectively.

CITIC International Asset Management Limited (CITICIAM)

CITICIAM is part of the CITIC Group, a major diversified financial and investment conglomerate wholly-owned by the State Council of the People's Republic of China (CITIC group owns 46% in CIAM). CITICIAM's principal activity is to invest in companies and projects in China and internationally. Established in 2002 to specialise in distressed asset management, the current portfolio of CITICIAM includes direct investments in real estate, high technology, health, retail and industrial projects.

CITICIAM's strategy focuses on investment mainly in China in environmental, agricultural, natural resources and health sector specifically in SME's, which are run in line with the state policies and contribute to the socio-economic development of China.

The total assets and total shareholders' equity as of 30 September 2017 amounted to US\$406 million and US\$367 million respectively.

Board of Directors

HRH Prince Amr Mohammed Al Faisal

Non-Executive Chairman

Elected 28 March 2016

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

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

Tunku Yaacob Khyra

Independent, Non-Executive Board Member

Elected 28 March 2016

Prince Yaacob has more than 34 years of banking and finance experience.

He is Chairman of IB Capital, and Chairman of MAA Group Berhad (Malaysia) which he joined in 1999. Prior to his current position, Prince Yaacob worked for 19 years at Malaysian Assurance Alliance Berhad, where his last position was Chairman. He also worked at PriceWaterhouse, UK and Malaysia.

Prince Yaacob holds a Bachelor of Science Degree with Honours from the City University in London and is a Fellow of the Institute of Chartered Accountants of England and Wales.

Sheikh Zamil Abdullah Al-Zamil

Independent, Non-Executive Board Member

Elected 28 March 2016

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

Abdelhamid Mohamed Aboumoussa

Executive Board Member

Elected 28 March 2016

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

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

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

Board of Directors Continued

Mohammed A. Rahman Bucheerei

Executive Board Member

Appointed 28 March 2016

Representing Dar Al-Maal Al-Islami Trust

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

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

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

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

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

Nabeel Khalid Kanoo

Independent, Non-Executive Board Member

Elected 28 March 2016

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

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

Abdullellah Ebrahim Al-Qassimi

Independent, Non-Executive Board Member

Elected 28 March 2016

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

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

Omar Abdi Ali

Non-Executive Board Member

Elected 28 March 2016

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

Dr. Amani Khaled Bouresli

Independent, Non-Executive Board Member

Elected 28 March 2016

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

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

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

Abdulshakoor Hussain Tahlak

Independent, Non-Executive Board Member

Elected 28 March 2016

Mr. Tahlak has more than 37 years of experience in the United Arab Emirates public and private sectors. He is a member of the Ithmaar Bank Board of Directors. Mr. Tahlak is currently a private consultant to the UAE Minister of State for International Cooperation, and ambassador for Expo 2020 after he resigned as Senior Executive Vice President at Emirates NBD following the Emirates NBD 2007 merger between the National Bank of Dubai (NBD) and Emirates Bank International (EBI). He is currently a board member of the World Union of Arab Bankers in Beirut. Mr. Tahlak has held various management and banking positions including Chairman of NBD

Islamic Finance "Al Watani Al Islami", Chairman of Abu Dhabi Investment House, Board member of Industrial Bank in Emirates, Board member of Emirates NBD Securities, Board member of Emirates NBD Investment, and Board member of UAE Banks Federation. He built and developed strong relationships between banks and across official and government entities, and contributed to developing expertise within the UAE banking industry. He also played a major role in developing banking and financial system in the UAE and was a member of various committees at the Central Bank as well as several councils at universities and colleges that worked to address local market requirements, and develop the UAE banking system. Prior to his banking career, Mr. Tahlak served in the UAE Ministry of Foreign Affairs as Head of the International Organization Desk, Diplomatic Department. During his diplomatic career, he joined several official delegations and attended international sessions and meetings. He also participated in several regional and international conferences, and was delegated for short periods to work with the United Nations.

Sheikh Mohamed Abdullah Abdelkarim Elkhareiji

Non-Executive Board Member

Appointed 16 October 2017

Representing Dar Al-Maal Al-Islami Trust

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

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

Note:

Independence is determined based on the CBB's definition of "Independent Director", which is stipulated in the Glossary section of the CBB Rulebook.

Sharia Supervisory Board

Sheikh Abdullah Sulaiman Al Manee'a

Chairman

Appointed 2016

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

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

Sheikh Dr. Nedham Mohammed Saleh Yaqouby

Member

Appointed 2016

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

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

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

Sheikh Mohsin Al-Asfoor

Member

Appointed 2016

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

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

Sheikh Dr. Osama Mohammed Saad Bahar

Member

Appointed 2016

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

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

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

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

Executive Management

ITHMAAR HOLDING EXECUTIVE MANAGEMENT

Ahmed Abdul Rahim

Chief Executive Officer

Master of Business Administration, University of Glamorgan, Wales (UK) (1999)

- Associate, the Institute of Financial Accountants, UK (1995)
- 40 years of banking experience
- Joined the Group in 2006

ITHMAAR BANK EXECUTIVE MANAGEMENT

Ahmed Abdul Rahim

Chief Executive Officer

(Details as above)

Abdulhakeem Khalil Al Mutawa

Deputy Chief Executive Officer, Banking Group

Master of Business Administration, University of Bahrain (1991)

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

Ravindra Anant Khot

Deputy Chief Executive Officer, Support Group

Fellow Chartered Accountant (FCA), the Institute of Chartered Accountants of India (1996)

- Bachelor of Commerce, (Financial Accounting) University of Mumbai, India (1983)
- 32 years of banking and finance experience
- Joined the Group in 2007

Mohammed Hasan Janahi

Assistant General Manager, Head of Retail Banking

Advanced Diploma in Banking and Finance, BIBF (1998)

- 33 years of Banking experience
- Joined the Group in 2002

Yousif Abdulla Alkhan

Assistant General Manager, Head of Information Technology and Administration

Qualifications and experience:

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

Abdulla Abdulaziz Ali Taleb

Assistant General Manager, Head of Commercial and Financial Institutions

Qualifications and experience:

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

Krishnan Hariharan

Head of Risk Management, Chief Risk Officer

Qualifications and experience:

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

Dana Aqeel Raees

Head of Legal Department and Corporate Secretary

Qualifications and experience:

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

Executive Management Continued

Khalil Ebrahim Al-Asfoor

Acting Head of Internal Audit

Qualifications and experience:

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

Saqib Mahmood Mustafa

Head of Financial Control

Qualifications and experience:

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

Enas Mohamed Rahimi

Head of Human Resources

Qualifications and experience:

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

Hana Ahmed Al Murran

Head of Compliance and Anti Money Laundering Compliance Officer

Qualifications and experience:

- Master of Business Administration, University of Strathclyde Business School (2012)
- Bachelor of Science in Banking and Finance, University of Bahrain (2003)
- 15 years of regulatory, banking and finance experience
- Joined the Group in 2015

Corporate Governance



Corporate Governance

Overview of Policies and Controls

Ithmaar Holding follows the Central Bank of Bahrain's (CBB) requirements stipulated under the High Level Controls (HC) Module of the Rulebook issued by the CBB as well as the Corporate Governance Code of the Ministry of Industry, Commerce and Tourism, Ithmaar Holding's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and international best practices, where applicable.

Ithmaar Holding follows the Group's internal policies on corporate governance. This Policy provides guidance on engaging with stakeholder groups.

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

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

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

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

The "Comply or Explain" Principle:

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

- The Chairman is a non-executive director but not an independent director, as defined by the CBB, as he is the Chairman of the Board of Supervisors of Dar Al Maal Al Islami Trust the Company's controller.
- The Chairperson of the Remuneration and Nomination Committee (RNC) did not attend the Annual General Meeting and Extraordinary General Meeting which were held on 30 March 2017. Ithmaar Holding will ensure that the Chairperson of the RNC attends future meetings.
- During the year, two Board Members did not satisfy the 75 percent minimum required attendance percentage for Board Meeting due to the reasons explained under the Board Meeting Attendance section of this report.

Developments in regulations

On an ongoing basis, Ithmaar Holding monitors updates in the CBB requirements, including those stipulated under the HC Module, and implements the necessary updates to its processes and procedures in response to those regulatory changes. Material changes in the HC Module introduced by the CBB during the year 2017 include the requirement to invite the regulators to the ordinary or extraordinary general assembly meetings. Ithmaar Holding confirms its adherence to this requirement.

Board of Directors

The Board of Directors of Ithmaar Holding comprises eleven members, of whom six are independent.

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

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

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

Board of Directors (Continued)

Members of the Board are responsible, both individually and collectively, for performing these responsibilities, including the following in relation to Ithmaar Holding:

- Maintain an overall responsibility for performance;
- Establish policies for strengthening performance, including ensuring that management is proactively seeking to build the business through innovation, initiative and the development of its business capital;
- Select, appoint, monitor and evaluate management's performance;
- Appoint the Chief Executive Officer and management, as well as set the terms of their employment;
- Review the performance and compensation of the management;
- Review the structure and succession plan of the management;
- Manage and advise the management;
- Monitor and manage actual and potential conflicts of interest;
- Decide on whatever steps are necessary to protect Ithmaar Holding's financial position and viability;
- Ensure that the financial statements are true and fair, and otherwise conform with applicable law;
- Ensure that high standards of ethics and corporate governance are adhered to;
- Ensure that appropriate risk management and regulatory compliance policies are in place;
- Monitor the effectiveness of the governance, compliance, and internal control framework;
- Ensure timely and adequate legal and regulatory disclosures;
- Arrange the shareholders' ordinary and extraordinary general meetings; and
- Ensure equitable treatment of minority shareholders.

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

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

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

Structure and Composition of the Board

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

Duties of Board Members

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

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

Duty of Obedience

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

Duty of Care

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

Duty of Loyalty

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

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

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

Corporate Governance Continued

Board Members' Election and Evaluation System

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

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

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

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

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

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

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

The Board, its committees and individual members are regularly assessed with respect to their effectiveness and contribution.

Board Induction and Development Programme

Ithmaar Holding prepares an all-day induction programme for newly appointed/elected Board members, which starts with a welcome note from the Chief Executive Officer. Thereafter, members of the Ithmaar Holding and Ithmaar Bank Executive Management teams introduce the Ithmaar Holding and Ithmaar Bank in detail, covering the history, structure, subsidiaries, strategy, financial performance and organizational chart. This is followed with presentations from the heads of various departments at Ithmaar Bank in respect of their role and function. Ithmaar Holding also arranges training sessions throughout the year for Board members and Executive Management, to keep them abreast with the latest developments (legal, regulatory, market, technological and others) in the investment sector.

Board Members' Remuneration

The Board members' sitting fees for 2017 amounted to US\$ 408,000. Sharia Supervisory Board retention fee amounted to Nil and their sitting fees for 2017 was US\$4,000.

Remuneration strategy

The Variable Remuneration Policy is not applicable to Investment Companies and hence post the reorganisation Ithmaar Holding B.S.C. is not subject to any Remuneration Strategy and the Remuneration Balances were transferred as part of the reorganisation to Ithmaar Bank B.S.C. (c) as clarified in the below tables:

Employee remuneration (Bahrain)

2016	No. of Staff	Fixed remuneration		Sign on bonuses (Cash/shares)	Guaranteed bonuses (Cash/shares)	Variable remuneration					Total
		Cash	Others			Upfront		Deferred			
						Cash	Shares	Cash	Shares	Others	
Approved persons Business lines	3	786,624	-	340,324	-	136,129	-	34,032	170,162	-	340,324
Approved persons Control & support	10	896,364	-	212,824	-	102,605	-	32,933	77,287	-	212,824
Other material risk takers	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-
Other staff	4	345,238	-	31,248	-	21,874	-	9,049	-	-	30,922
Other Staff of Bahrain Operations	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-
Staff of Branches & subsidiaries	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-
Total	17	2,028,226	-	584,396	-	260,608	-	76,014	247,448	-	584,070

Note: Ithmaar Holding B.S.C. has outsourced all resources from Ithmaar Bank B.S.C. (c) and accordingly there are no employee related costs.

Deferred awards for Current Year (2017)

	Cash		Shares		Total
	BHD		Number	BHD	BHD
Opening Balance	210,679		7,240,713	744,024	954,703
Balance transferred / adjusted as part of reorganisation	(210,679)		(7,240,713)	(744,024)	(954,703)
Awarded during the period	-		-	-	-
Paid out / released during the period	-		-	-	-
Service, performance and risk adjustment	-		-	-	-
Bonus share adjustment	-		-	-	-
Closing Balance	-		-	-	-

Deferred awards for Previous Year (2016)

	Cash		Shares		Total
	BHD		Number	BHD	BHD
Opening Balance	162,679		5,759,084	496,576	659,255
Awarded during the period	76,014		1,481,629	247,448	323,462
Paid out / released during the period	(28,014)		-	-	(28,014)
Service, performance and risk adjustments	-		-	-	-
Bonus share adjustment	-		-	-	-
Closing Balance	210,679		7,240,713	744,024	954,703

Corporate Governance Continued

Employment of relatives of approved persons

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

Board committees

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

Audit, Governance and Risk Management Committee

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

The AGRMC is chaired by an Independent Director and comprises:

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

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

The AGRMC meets at least four times a year.

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

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

This committee also assists the Board in fulfilling its governance responsibility, particularly to (a) oversee and monitor the implementation of a robust compliance framework by working

together with the Management and the Sharia Supervisory Board, and (b) provide the Board of Directors with reports and recommendations based on its findings in the exercise of its function.

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

The Committee also recommends and monitors the overall risk management framework which involves all business activities and operations policies, internal controls, methods of risk management and risk reporting to the Board.

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

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

Remuneration and Nomination Committee

The Remuneration and Nomination Committee (RNC) is appointed by the Board of Directors to provide a formal forum for communication between the Board and Management on human resource issues. The RNC reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors:

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

The RNC meets at least twice a year.

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

The RNC comprises:

- Mr. Abdullellah Ebrahim Al-Qassimi, Chairman and Member
- Mr. Abdulshakoor Hussain Tahlak, Member
- Sheikh Zamil Abdulla Al-Zamil, Member

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

- Recommending the composition, quantum and structure of remuneration for the members of the Sharia Supervisory Board
- Recommending the organisation chart and succession plan

There were no significant issues arising during the period.

Attendance

2017 Board of Directors / Board Committees Meetings Attendance

	Board of Directors		Audit, Governance & Risk Management Committee		Remuneration & Nomination Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
HRH Prince Amr Mohammed Al Faisal	6	6	-	-	-	-
Mr. Khalid Abdulla-Janahi (Resigned 11 June 2017)	2	2	-	-	-	-
Tunku Yaacob Khyra	6	4	-	-	-	-
Shaikha Hissah bint Saad Al-Sabah (Resigned 20 August 2017)	3	1	-	-	2	1
Sheikh Zamil Abdullah Al-Zamil	6	3	4	3	-	-
Governor Abdelhamid Abomoussa	6	6	-	-	-	-
Mr. Nabeel Khaled Kanoo	6	5	4	4	-	-
Mr. Mohammed Bucheerei	6	6	-	-	-	-
Mr. Abdullellah Ebrahim Al-Qassimi	6	6	4	4	2	2
Dr. Amani Khaled Bouresli	6	6	4	4	-	-
Mr. Abdulshakoor Hussain Tahlak	6	5	-	-	2	2
Sheikh Mohamed Abdullah El Khereiiji (Appointed 16 October 2017)	1	1	-	-	-	-
Mr. Omar Abdi Ali	6	6	-	-	-	-
Dates of meeting during 2017		1 March		19 February		1 March
		4 June		7 May		18 September
		9 August		6 August		
		24 August		5 November		
		18 September				
		4 December				

Note:

* Sheikh Dr Osama Bahar, member of the Sharia Supervisory Board, is also a member of the Audit, Governance and Risk Management Committee.

Corporate Governance Continued

ATTENDANCE (Continued)

In accordance with the Central Bank of Bahrain requirement and Ithmaar Holding's Articles of Association, the Board of Directors shall meet at least four times a year and each Board member is required to attend at least 75 percent of all Board meetings in a financial year.

The following Board members did not satisfy the minimum required attendance percentage:

• **Tunku Yaacob Khyra:**

- Did not attend the Extraordinary Teleconference meeting held on 24 August 2017, as he could not be reached by phone; and
- Did not attend the Board of Directors meeting held on 18 September 2017, as the start of the meeting was delayed by two hours and then he could not be reached by phone.

• **Sheikh Zamil Al-Zamil:**

- Did not attend the Extraordinary Teleconference meeting held on 9 August 2017, as he could not be reached by phone;
- Did not attend the Extraordinary Teleconference meeting held on 24 August 2017, as he could not be reached by phone; and
- Did not attend the Board of Directors meeting held on 18 September 2017, as he was travelling and he could not be reached by phone.

Sharia Supervisory Board

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

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

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

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

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

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

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

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

Communications with stakeholders

The Board acknowledges the importance of regular communication with stakeholders and particularly investors through a number of means to promote greater understanding and dialogue. Measures adopted include Annual General Meetings, annual reports, quarterly disclosures of financial reports and various announcements made during the year on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market as well as on the Ithmaar Holding website, through which stakeholders have an overview of Ithmaar Holding's performance and operations.

The Chairman of the Board (or any other Director if delegated by the Chairman) maintains continuing personal contact with major shareholders to solicit their views. The Chairman discusses the views of the major shareholders with the Board of Directors.

Ithmaar Holding maintains a website which stakeholders may access for information, which includes the corporate profile, corporate information, press releases and financial performance, amongst others.

To further assist with shareholder communications, Ithmaar Holding has a dedicated Shareholders Affairs function with the primary responsibility of acting as a liaison between Ithmaar Holding shareholders and the stock exchanges where the shares are listed. Views of shareholders are communicated to and discussed at Board meetings, which are part of the agenda.

Interests of Directors and Executive Management

The interests of Directors and Executive Management in the shares of Ithmaar Holding are disclosed in the Report of the Directors and Share Information respectively.

Share Information

Information on the distribution of share ownership together with key statistics on the performance of Ithmaar Holding's shares on the Bahrain Bourse and Boursa Kuwait are disclosed in the section on Share Information of the annual report. No disclosure of share information related to Dubai Financial Market is included in this year's annual report as the Group's shares were listed there on 29 January 2018.

Shareholders' Rights

All shares issued have equal rights. Recognising the importance of shareholders, it is Ithmaar Holding's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of the shareholders include the right to participate in shareholder meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, individually. Their rights also include voting on the appointments of Board of directors, the appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reduction of capital, right to receive dividend payments, as well as the right to give opinions and the right to inquire during shareholder meetings.

Rights of Minority Shareholders

The Board of Directors is structured to include independent Directors with additional responsibilities of protecting minority shareholders' rights.

As additional measures to protect minority interests, Ithmaar subscribes to the following guidelines:

Mandatory shareholder approval of major transactions such as change in capital or transfer of business (as per limits prescribed by the Central Bank of Bahrain);

Mandatory disclosures of transactions by substantial shareholders;

Pre-emptive rights on issuance of new shares;

Limitations on business transactions with Directors, controllers, and related parties as per the rules of the Central Bank of Bahrain;

Exercise rights to elect independent Directors;

Penalties for insider trading; and

Necessary provisions on takeovers, mergers, and acquisitions.

External Auditors

The audit fees charged and non-audit services provided by external auditors will be made available to the shareholders as and when requested. Such details will be made available to Ithmaar Holding's shareholders as per their specific request provided that these disclosures would not negatively impact Ithmaar Holding's interest and its competition in the market.

Risk Management

Risk Management

Risk Management activities of Ithmaar Holding are outsourced to Ithmaar Bank. Ithmaar Bank has a robust risk management framework detailed in the Risk Charter. The risk management framework includes comprehensive risk policies for various risk silos addressing all material risks from an enterprise risk management perspective. The policies address the risk appetite and risk management guidelines for each of the risk silos. The policies are further supported by risk measurement models and methodologies which measure the risks in line with regulatory guidelines. The risk management policies of Ithmaar Bank, along with the latest amendments, are adopted by Ithmaar Holding.

All investments of Ithmaar Holding are monitored on an active basis and representatives from Ithmaar Holding are appointed on the Board of the major investments to monitor the Investments.

Further, any proposals to exit investments or any major developments in the investments are reviewed by the Risk Management Department and submitted to the approving authority as mentioned in the risk policies. The Board-approved Business Discretionary Powers policy establishes the approval authorities for investments based on its value.

Connected counterparties include companies or persons connected with Ithmaar Holding, including, in particular; controllers and their appointed board representatives as defined in the CBB Rulebook; subsidiaries, associates and related parties as defined by IFRS; holders of close family members as defined by IFRS - IAS 24; and members of the Sharia Supervisory Board.

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

Internal controls are guided by Policies as adopted by the Board; the policies are regularly updated by Ithmaar Bank depending on the prevailing economic conditions and regulatory guidelines. The policies are reviewed on an annual basis.

Declarations of Interest

On taking office, Members of the Board of Directors of Ithmaar Holding are required to disclose to Ithmaar Holding all interests and relationships which could or might be seen to affect their ability to

perform their duties as a Member of the Board of Directors. Any such interests declared shall be recorded in the Board of Director's Register of Interests, which are maintained by the shareholders affairs unit of Ithmaar Bank.

Approval of Related Party Transactions

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

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

Compliance, Anti Money Laundering and Internal Controls

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

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

Ithmaar Holding's management ensures that business is conducted in conformity with high ethical standards and is in compliance with the applicable laws and regulations, which include the regulations issued by the CBB and the regulatory framework of exchanges on which the Company is listed. The Compliance Officer ensures that Ithmaar Holding's management and personal are aware of the applicable regulatory requirements, and implications thereof, in order to achieve a consistently high level of compliance.

Consolidated financial statements

For the year ended 31 December 2017

Contents

Report of the Sharia Supervisory Board	35
Directors' Report	37
Independent Auditor's Report	39
Consolidated statement of financial position	40
Consolidated Income Statement	41
Consolidated Statement of Changes in Owners' Equity	42
Consolidated Statement of Cash Flows	43
Consolidated Statement of Changes in Restricted Investment Accounts	44
Notes to the Consolidated Financial Statements	45

Report of the Sharia Supervisory Board

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) for the Financial Year from 1 January 2017 until 31 December 2017, corresponding to the Period from 3 Rabi Al-Akher 1438 H until 13 Rabi Al-Akher 1439 H.

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

The Sharia Supervisory Board of Ithmaar Holding B.S.C. ("Ithmaar") performed the following during the financial year from 1 January 2017 until 31 December 2017:

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

We have reviewed the principles and contracts relating to transactions and products that has been executed by Ithmaar during the period from 1 January 2017 to 31 December 2017. We have also conducted the required inspections to provide our opinion on whether Ithmaar had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us.

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

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

i: With regard to Ithmaar's business in general:

- a. Ithmaar's overall operations and activities were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.
- b. Income generated from non-sharia compliant investments of the conventional assets transferred to the company when Shamil Bank merged with Ithmaar Bank in 2010, these have been identified, disclosed and published to the shareholders in Note 42 of the Consolidated Financial Statements, taking into consideration that the Bank is still in the process of correcting the status of these investment according to the Sharia Board instructions.
- c. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.

Report of the Sharia Supervisory Board (Continued)

ii: Conventional assets transferred to Ithmaar Holding company:

Ithmaar has been restructured into a holding company, and Ithmaar Holding retains 100 percent ownership of all assets formerly owned by Ithmaar Bank B.S.C., through two wholly-owned subsidiaries, Ithmaar Bank B.S.C (closed) (Ithmaar Bank), an Islamic retail bank subsidiary which holds the core retail banking business (for commercial operations in Bahrain and Pakistan), and IB Capital B.S.C. (closed), an investment subsidiary, which holds investments and other non-core assets, and will take appropriate actions for these assets either through disposal or converting these assets to Islamic alternatives. The Sharia Supervisory Board sees this as a positive step towards conversion of conventional assets.

To ensure compliance with its Fatwas and directions, the Sharia Supervisory Board has reviewed the income statement of Ithmaar for the year ended 31 December 2017 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities in Note 42. Accordingly, the Sharia Supervisory Board guides the shareholders of Ithmaar to dispose of impermissible earnings which has been calculated, in the current year's financial statements, at 63 US cents per share.

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

His Eminence Shaikh Abdulla Al Manee'a
Chairman

His Eminence Shaikh Mohsin Al-Asfoor
Member

His Eminence Shaikh Dr. Nizam Yacooby
Member

His Eminence Shaikh Dr. Osama Bahar
Member

Manama
Kingdom of Bahrain
22 February 2018

Directors' Report

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

Principal activities

Ithmaar Holding B.S.C was established after shareholders of formerly named Ithmaar Bank B.S.C approved in March 2016 plans to significantly transform the Group's operations. The former Ithmaar Bank B.S.C held an Islamic retail banking license. The plans, which were proposed by Ithmaar Bank Board of Directors and approved by shareholders at an Extraordinary General Meeting dated 28 March 2016, involved Ithmaar Holding retains 100 percent ownership of all assets previously owned by Ithmaar Bank B.S.C., through its two subsidiaries, Ithmaar Bank B.S.C (C) (Ithmaar Bank) an Islamic retail bank subsidiary which holds the core retail banking business, and IB Capital B.S.C (C), an investment subsidiary which holds investments and other non-core assets. The two subsidiaries are licensed and regulated by the CBB. The plans received all necessary approvals and were implemented on 2 January 2017.

The principal activities of the Group are a wide range of financial services, including retail, commercial, asset management, private banking, takaful, leasing and real estate development.

Consolidated financial position and results

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

The Group has reported a net loss of \$84.7 million for 2017 attributable to the equity shareholders of the Group, as compared to a net profit of \$3.3 million for 2016. Total assets at 31 December 2017 amounted to \$8,611.4 million (31 December 2016: \$8,341.3 million).

Directors

The following served as Directors of Ithmaar during the year ended 31 December 2017:

HRH Prince Amr Mohamed Al Faisal (Chairman)

Tunku Yaacob Khyra

Mr. Abdel Hamid Abo Moussa

Sheikh Zamil Abdullah Al-Zamil

Mr. Nabeel Khalid Kanoo

Mr. Mohammed Bucheerei

Mr. Abdullellah Ebrahim Al-Qassimi

Mr. Omar Abdi Ali

Dr. Amani Khaled Bouresli

Mr. Abdulshakoor Hussain Tahlak

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

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

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

Directors' sitting fees

Directors' sitting fees for 2017 amounted to \$408,000 (2016: \$423,500).

Directors' Report (Continued)

Interests of Directors

The interests of the Directors in the shares of Ithmaar are disclosed below:

Name	Number of Shares	
	31 December 2017	31 December 2016
HRH Prince Amr Mohamed Al Faisal	106,100	106,100
Tunku Yaacob Khyra	106,100	106,100
Mr. Abdel Hamid Abo Moussa	106,100	106,100
Sheikh Zamil Abdullah Al-Zamil	205,000	205,000
Mr. Nabeel Khalid Kanoo	106,100	106,100
Mr. Mohammed Bucheerei	105,600	105,600
Mr. Abdullellah Ebrahim Al-Qassimi	106,100	106,100
Mr. Omar Abdi Ali	-	-
Dr. Amani Khaled Bouresli	-	-
Mr. Abdulshakoor Hussain Tahlak	-	-
Mr. Mohammed Elkhareiji (Appointed with effect from 16 October 2017)	-	-
Mr. Khalid Abdulla-Janahi (Resigned with effect from 11 June 2017)	Not applicable	20,749,693
Sheikha Hissah Bint Saad Al-Sabah (Resigned with effect from 20 August 2017)	Not applicable	106,100

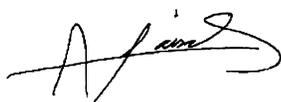
Dividend

No dividend has been proposed for 2017 (2016: Nil).

Auditors

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

By order of the Board of Directors



HRH Prince Amr Mohamed Al Faisal

Chairman

26 February 2018

Independent Auditor's Report

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

Report on the consolidated financial statements

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

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

Opinion

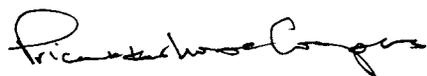
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017 and the results of its operations, its cash flows, changes in owners' equity and changes in restricted investment accounts for the year then ended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

Report on regulatory requirements and other matters

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 4), we report that:

- (i) Ithmaar has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- (ii) the financial information contained in the directors' report is consistent with the consolidated financial statements;
- (iii) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 4 and applicable provisions of Volume 6) and CBB directives, rules and procedures of the Bahrain Bourse or the terms of Ithmaar's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of Ithmaar or on its financial position; and
- (iv) satisfactory explanations and information have been provided to us by the management in response to all our requests.

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



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

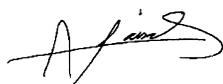
Consolidated statement of financial position

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	At 31 December 2017 (Audited)	At 31 December 2016 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	701,938	736,033
Commodity and other placements with banks, financial and other institutions	4	261,392	142,607
Murabaha and other financings	5	3,575,633	3,444,588
Musharaka financing		369,369	229,960
Investment in mudaraba	6	5,760	14,425
Sukuk and investment securities	7	1,862,885	1,874,782
Investment in associates	8	186,207	668,403
Restricted investment accounts	9	74,896	79,852
Assets acquired for leasing	10	347,760	256,204
Investment in real estate	11	247,902	242,594
Other assets	12	196,239	361,654
Assets classified as held-for-sale	13	478,432	-
Fixed assets	14	140,820	112,981
Intangible assets	15	162,126	177,227
Total assets		8,611,359	8,341,310
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	16	1,781,493	1,581,113
Due to banks, financial and other institutions	17	1,143,964	1,141,513
Due to investors	18	1,907,971	1,903,612
Other liabilities	19	431,645	342,622
Total liabilities		5,265,073	4,968,860
Equity of unrestricted investment accountholders	20	2,827,915	2,769,694
Minority interest	21	163,041	175,341
Total liabilities, equity of unrestricted investment accountholders and minority interest		8,256,029	7,913,895
Share capital	22	757,690	757,690
Treasury shares	22	(30,149)	(27,802)
Reserves		233,761	218,788
Accumulated losses		(605,972)	(521,261)
Total owners' equity		355,330	427,415
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		8,611,359	8,341,310

These consolidated financial statements were approved by the Board of Directors on 26 February 2018 and signed on their behalf by:



HRH Prince Amr Mohamed Al Faisal
Chairman



Dr. Amani Khaled Bouresli
Director



Ahmed Abdul Rahim
CEO

The notes 1 to 43 on pages 45 to 79 form an integral part of the consolidated financial statements.

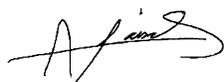
Consolidated Income Statement

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended	
		31 December 2017 (Audited)	31 December 2016 (Audited)
INCOME			
Income from unrestricted investment accounts		164,961	143,535
Less: return to unrestricted investment accounts and impairment provisions		(88,100)	(98,938)
Group's share of income from unrestricted investment accounts as a Mudarib		76,861	44,597
Group's share of income from restricted investment accounts as a Mudarib	24	68	81
Income from murabaha and other financings	25	141,549	132,902
Share of profit after tax from associates	8	22,995	46,481
Income from other investments	26	123,139	136,811
Other income	27	27,847	52,294
Total income		392,459	413,166
Less: profit paid to banks, financial and other institutions – net		(161,898)	(151,018)
Operating income		230,561	262,148
EXPENSES			
Administrative and general expenses	28	(180,850)	(162,614)
Depreciation and amortization	8,13,14	(27,651)	(29,489)
Total expenses		(208,501)	(192,103)
Net income before provision for impairment and overseas taxation		22,060	70,045
Provision for impairment – net	30	(67,588)	(33,302)
Net income/(loss) before overseas taxation		(45,528)	36,743
Overseas taxation	31	(26,873)	(22,945)
NET PROFIT/(LOSS) FOR THE YEAR		(72,401)	13,798
Attributable to:			
Equity holders of the Ithmaar		(84,711)	3,279
Minority interests	21	12,310	10,519
		(72,401)	13,798
Basic and diluted earnings per share	23	US Cts (2.91)	US Cts 0.11

These consolidated financial statements were approved by the Board of Directors on 26 February 2018 and signed on their behalf by:



HRH Prince Amr Mohamed Al Faisal
Chairman



Dr. Amani Khaled Bouresli
Director



Ahmed Abdul Rahim
CEO

The notes 1 to 43 on pages 45 to 79 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2017 and 2016

(Expressed in thousands of United States Dollars unless otherwise stated)

	Reserves										Total owners' equity
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves	Accumulated losses	
At 1 January 2017 (Audited)	757,690	(27,802)	148,662	38,418	50,727	25,711	2,648	(47,378)	218,788	(521,261)	427,415
Net loss for the year	-	-	-	-	-	-	-	-	-	(84,711)	(84,711)
Employee share incentive scheme (note 22)	-	(2,347)	423	-	-	-	-	-	423	-	(1,924)
Movement in fair value of sukuk and investment securities	-	-	-	-	-	5,061	-	-	5,061	-	5,061
Movement in fair value of investment in real estate	-	-	-	-	-	-	938	-	938	-	938
Movement in fair value of associates	-	-	-	-	-	8,009	-	-	8,009	-	8,009
Foreign currency translation adjustments	-	-	-	-	-	(8)	(136)	686	542	-	542
At 31 December 2017 (Audited)	757,690	(30,149)	149,085	38,418	50,727	38,773	3,450	(46,692)	233,761	(605,972)	355,330

	Reserves										Total owners' equity
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves	Accumulated losses	
At 1 January 2016 (Audited)	757,690	(30,149)	149,692	38,090	50,727	9,212	1,586	(38,413)	210,894	(524,212)	414,223
Net income for the year	-	-	-	-	-	-	-	-	-	3,279	3,279
Employee share incentive scheme (note 22)	-	2,347	(1,030)	-	-	-	-	-	(1,030)	-	1,317
Transfer to statutory reserve	-	-	-	328	-	-	-	-	328	(328)	-
Movement in fair value of sukuk and investment securities	-	-	-	-	-	18,227	-	-	18,227	-	18,227
Movement in fair value of investment in real estate	-	-	-	-	-	-	657	-	657	-	657
Movement in fair value of associates	-	-	-	-	-	(1,739)	-	-	(1,739)	-	(1,739)
Foreign currency translation adjustments	-	-	-	-	-	11	405	(8,965)	(8,549)	-	(8,549)
At 31 December 2016 (Audited)	757,690	(27,802)	148,662	38,418	50,727	25,711	2,648	(47,378)	218,788	(521,261)	427,415

The notes 1 to 43 on pages 45 to 79 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended	
		31 December 2017 (Audited)	31 December 2016 (Audited)
OPERATING ACTIVITIES			
Net income/(loss) before overseas taxation		(45,528)	36,743
Adjustments for:			
Depreciation and amortization	8,13,14	27,651	29,489
Share of profit after tax from associates	8	(22,995)	(46,481)
Provision for impairment – net	30	67,588	33,302
Gain on sale of fixed assets	27	(545)	(877)
Operating income before changes in operating assets and liabilities		26,171	52,176
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		(9,255)	113,110
Changes in operating assets and liabilities:			
Murabaha and other financings		(1,200)	(56,878)
Musharaka financing		(159,370)	(79,243)
Other assets		(62,703)	(51,564)
Customers' current accounts		166,353	139,577
Due to banks, financial and other institutions		31,121	(501,758)
Due to investors		113,940	140,885
Other liabilities		91,210	16,514
Increase in equity of unrestricted investment accountholders		77,951	370,840
Taxes paid		(22,731)	(14,791)
Net cash provided by operating activities		251,487	128,868
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Investment in mudaraba		8,665	6,923
Investment in restricted investment accounts		-	(1,129)
Assets acquired for leasing		(91,869)	(86,722)
Sukuk and investment securities		(116,368)	57,236
Dividend received from associates	8	28,730	18,202
Purchase of fixed assets		(11,398)	(4,724)
Net cash used in investing activities		(182,240)	(10,214)
FINANCING ACTIVITIES			
Minority interest		(1,326)	(12,490)
Net cash used in financing activities		(1,326)	(12,490)
Foreign currency translation adjustments		7,515	24,123
Net increase in cash and cash equivalents		75,436	130,287
Cash and cash equivalents at the beginning of the year		716,782	586,495
Cash and cash equivalents at the end of the year	4	792,218	716,782

The notes 1 to 43 on pages 45 to 79 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

For the year ended 31 December 2017 and 2016

(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2017	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	At 31 December 2017
Dilmunia Development Fund I L.P.*	149,491	192	-	-	(4,354)	145,329
Shamil Bosphorus Modaraba*	6,250	-	-	-	-	6,250
European Real Estate Portfolio*	15,915	-	-	-	(15,915)	-
European Real Estate Placements*	16,141	320	(68)	1,696	(1,685)	16,404
US Real Estate Placements*	27,554	-	-	-	(2,318)	25,236
Listed and non-listed equities	47	-	-	8	-	55
Cash and Placements with banks	9,406	-	-	-	(8,848)	558
TOTAL	224,804	512	(68)	1,704	(33,120)	193,832
FUNDS MANAGED ON AGENCY BASIS	65,255	-	-	-	(1,954)	63,301
	290,059	512	(68)	1,704	(35,074)	257,133

	At 1 January 2016	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	At 31 December 2016
Dilmunia Development Fund I L.P.*	149,900	(409)	-	-	-	149,491
Shamil Bosphorus Modaraba*	6,250	-	-	-	-	6,250
European Real Estate Portfolio*	16,641	-	-	(726)	-	15,915
European Real Estate Placements*	16,782	118	(10)	(749)	-	16,141
US Real Estate Placements*	28,065	-	(17)	16	(510)	27,554
Listed and non-listed equities	77,205	7,753	(54)	-	(84,857)	47
Cash and Placements with banks	-	-	-	-	9,406	9,406
TOTAL	294,843	7,462	(81)	(1,459)	(75,961)	224,804
FUNDS MANAGED ON AGENCY BASIS	65,230	-	-	-	25	65,255
	360,073	7,462	(81)	(1,459)	(75,936)	290,059

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

The notes 1 to 43 on pages 45 to 79 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. INCORPORATION AND ACTIVITIES

Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) ("Ithmaar") was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the "CBB"). Effective 14 April 2010 Ithmaar Bank B.S.C operated under Islamic retail banking license granted by the CBB.

During 2016, shareholders approved the reorganisation of Ithmaar Bank B.S.C at its Extraordinary General Meeting (EGM) held on 28 March 2016 to restructure Ithmaar Bank B.S.C into a holding company and two subsidiaries to segregate core and non-core assets. Effective 2 January 2017, the Bank has been converted in to Ithmaar Holding B.S.C., holding 100% of Ithmaar Bank B.S.C. (c) [retail license] and IB Capital B.S.C. (c) [investment license].

Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of Ithmaar.

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

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

Ithmaar's shares are listed for trading on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market.

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

The Group carries out its business activities through Ithmaar's head office in Bahrain and its following principal subsidiary companies:

	% owned		Country of Incorporation	Principal business activity
	Voting	Economic		
Ithmaar Bank B.S.C. (C)	100	100	Kingdom of Bahrain	Banking
IB Capital B.S.C. (C)	100	100	Kingdom of Bahrain	Asset management
Faysal Bank Limited	67	67	Pakistan	Banking
Faisal Private Bureau (Switzerland) S.A.	100	100	Switzerland	Wealth and asset management
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) [under Voluntary Liquidation]	63	50	Kingdom of Bahrain	Mortgage finance
Cantara (Switzerland) S.A.	100	100	Switzerland	Investment holding
DMI Administrative Services S.A.	100	100	Switzerland	Management services
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Shamil Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles	Investment holding

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of Ithmaar.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES

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

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

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 42.

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

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

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

FAS 30 - Impairment, credit losses and onerous commitments

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

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

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

The standard has significant impact on the consolidated financial statements of the Group and if adopted as of 1 January 2017, would result in additional impairment provisions in the range of \$81 million to \$97 million.

(ii) Basis of preparation

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

(iii) Statement of compliance

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

(iv) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Subsidiaries, including Special Purpose entities that are controlled by Ithmaar, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

Associates

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

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

Investment in associates which meet the criteria for held for sale are classified as assets-held-for-sale.

Intra-Group balances and minority interest

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

(b) Foreign currency transactions and balances

Functional and presentation currency

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency) and presented in US Dollars (the presentation currency). Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency will have no impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

Transactions and balances

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

(iv) Summary of significant accounting policies (Continued)

(b) Foreign currency transactions and balances (Continued)

Transactions and balances (Continued)

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

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

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

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

(c) Accounting estimates and judgements

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

1. Classification of investments

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

2. Special purpose entities

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

3. Impairment on financing assets and investments

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

4. Liquidity mismatch

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

(iv) Summary of significant accounting policies (Continued)

(d) Cash and cash equivalents

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

(e) Murabaha and other financings

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

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

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

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

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

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

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

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

(g) Investments

1. Investments carried at amortised cost

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

2. Investments carried at fair value through equity

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

(iv) Summary of significant accounting policies (Continued)

(g) Investments (Continued)

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

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

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

3. Investments carried at fair value through income statement

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

4. Restricted investment accounts

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

5. Investment in real estate

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

(iv) Summary of significant accounting policies (Continued)

(g) Investments (Continued)

6. Investment in mudaraba

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

7. Fair value

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

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

(h) Assets acquired for leasing (Ijarah)

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

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

(i) Fixed assets

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

Buildings	50 years
-----------	----------

Leasehold improvements	over the period of the lease
------------------------	------------------------------

Furniture, equipment and motor vehicles	3-10 years
---	------------

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

(iv) Summary of significant accounting policies (Continued)

(j) Intangible assets

1. Goodwill

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

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

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

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

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

2. Computer software

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

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

3. Other acquired intangible assets

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

(iv) Summary of significant accounting policies (Continued)

(k) Assets classified as held-for-sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying value and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

(l) Current taxation

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

(m) Deferred taxation

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

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

(n) Provision for staff benefits

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

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

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

(o) Due to investors

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

(iv) Summary of significant accounting policies (Continued)

(p) Equity of unrestricted investment accountholders

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

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

(q) Restricted investment accounts

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

(r) Treasury shares

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

(s) Statutory reserve

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

(t) Revenue recognition

1. Profit participation and management fees

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

2. Profit on Murabaha and other financings

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

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

3. Income from assets acquired for leasing

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (CONTINUED)

(iv) Summary of significant accounting policies (Continued)

(t) Revenue recognition (Continued)

4. Income from Mudaraba contracts

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

5. Profit on Musharaka contracts

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

6. Dividend income

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

7. Fees and commissions

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

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

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

(u) Profit allocation between group and investment accountholders

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

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

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

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

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

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	168,927	2,185	171,112	160,465	1,393	161,858
Cash and balances with banks and central banks	462,062	68,764	530,826	521,091	53,084	574,175
	630,989	70,949	701,938	681,556	54,477	736,033

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

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

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	261,392	-	261,392	142,607	-	142,607
Less: Provisions	-	-	-	-	-	-
	261,392	-	261,392	142,607	-	142,607

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

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	630,989	70,949	701,938	681,556	54,477	736,033
Commodity and other placements with banks, financial and other institutions - net	261,392	-	261,392	142,607	-	142,607
Less: Placement maturing after ninety days	-	-	-	-	-	-
Less: Balances with central bank relating to minimum reserve requirement	(168,927)	(2,185)	(171,112)	(160,465)	(1,393)	(161,858)
	723,454	68,764	792,218	663,698	53,084	716,782

5. MURABAHA AND OTHER FINANCINGS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	2,407,415	1,492,033	3,899,448	2,314,642	1,438,493	3,753,135
Less: Provisions	(306,644)	(17,171)	(323,815)	(286,791)	(21,756)	(308,547)
	2,100,771	1,474,862	3,575,633	2,027,851	1,416,737	3,444,588

Other financings represents conventional loans and advances totalling \$1,683 million (31 December 2016: \$1,647 million) made by a subsidiary of Ithmaar.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

5. MURABAHA AND OTHER FINANCINGS (Continued)

The movement in provisions is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	286,791	21,756	308,547	296,047	52,869	348,916
Charge for the year	43,427	-	43,427	33,618	5,550	39,168
Write back during the year	(19,341)	-	(19,341)	(13,042)	-	(13,042)
Utilised during the year	(1,286)	(7,222)	(8,508)	(26,224)	(36,826)	(63,050)
Reclassification	8,792	(261)	8,531	-	-	-
Transfer from/(to) Investment Risk Reserve	-	3,000	3,000	(4,046)	-	(4,046)
Exchange differences and other movements	(11,739)	(102)	(11,841)	438	163	601
At 31 December	306,644	17,171	323,815	286,791	21,756	308,547

Total provision of \$323.8 million (31 December 2016: \$308.5 million) includes general provision of \$31.8 million (31 December 2016: \$13.8 million).

6. INVESTMENT IN MUDARABA

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Mudaraba investments	17,820	-	17,820	733	26,006	26,739
Less : Provisions	(12,060)	-	(12,060)	(733)	(11,581)	(12,314)
	5,760	-	5,760	-	14,425	14,425

Certain assets totalling Nil million (31 December 2016: \$14.4 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provisions is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	733	11,581	12,314	854	11,581	12,435
Reclassification	11,327	(11,581)	(254)	-	-	-
Exchange differences and other movements	-	-	-	(121)	-	(121)
At 31 December	12,060	-	12,060	733	11,581	12,314

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

7. SUKUK AND INVESTMENT SECURITIES

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
<i>Held for trading</i>						
Debt-type instruments – unlisted	304,895	-	304,895	16,606	-	16,606
Equity-type securities – listed	-	-	-	-	-	-
	304,895	-	304,895	16,606	-	16,606
Investment securities at fair value through equity						
Equity-type securities – listed	55,271	-	55,271	57,401	-	57,401
Equity-type securities – unlisted	307,705	-	307,705	227,689	78,829	306,518
	362,976	-	362,976	285,090	78,829	363,919
Provision for impairment	(155,515)	-	(155,515)	(147,539)	(5,700)	(153,239)
	207,461	-	207,461	137,551	73,129	210,680
Investment securities carried at amortised cost						
Sukuk – unlisted	17,427	232,885	250,312	28,784	156,517	185,301
Other debt-type instruments – listed	73,798	-	73,798	74,201	-	74,201
Other debt-type instruments – unlisted	1,045,604	-	1,045,604	1,408,059	-	1,408,059
	1,136,829	232,885	1,369,714	1,511,044	156,517	1,667,561
Provision for impairment	(19,185)	-	(19,185)	(20,065)	-	(20,065)
	1,117,644	232,885	1,350,529	1,490,979	156,517	1,647,496
	1,630,000	232,885	1,862,885	1,645,136	229,646	1,874,782

Sukuk and investment securities include conventional investments totalling \$1,402.5 million (31 December 2016: \$1,490.1 million) made by a subsidiary of Ithmaar.

The fair value of investment securities carried at amortised cost was \$1,351.7 million (31 December 2016: \$1,650.4 million) and these are tradable

Certain assets totalling \$1.3 million (31 December 2016: \$10.4 million) included above are held by third parties as nominee on behalf of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

7. SUKUK AND INVESTMENT SECURITIES (Continued)

The movement in provisions relating to sukuk and investment securities is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	167,604	5,700	173,304	162,799	5,700	168,499
Charge for the year	10,856	-	10,856	7,013	-	7,013
Write back during the year	(78)	-	(78)	(637)	-	(637)
Utilised during the year	(333)	-	(333)	(578)	-	(578)
Reclassification	(2,179)	(5,700)	(7,879)	-	-	-
Exchange differences and other movements	(1,170)	-	(1,170)	(993)	-	(993)
At 31 December	174,700	-	174,700	167,604	5,700	173,304

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

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

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

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

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

Investments measured at fair value

At 31 December 2017	Level 1	Level 2	Level 3	Total
Investment securities at fair value through income statement				
Debt-type instruments	-	304,895	-	304,895
Equity securities	-	-	-	-
Investment securities at fair value through equity				
Equity securities	49,081	728	157,652	207,461
	49,081	305,623	157,652	512,356
At 31 December 2016				
Investment securities at fair value through income statement				
Debt-type instruments	-	16,606	-	16,606
Equity securities	-	-	-	-
Investment securities at fair value through equity				
Equity securities	52,342	-	158,338	210,680
	52,342	16,606	158,338	227,286

There was no movement between level 1 and level 2 during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

7. SUKUK AND INVESTMENT SECURITIES (Continued)

Reconciliation of Level 3 Items

	Investment securities at fair value through equity	
	2017	2016
At 1 January	158,338	153,078
Total gains/(losses) recognised in		
- Income statement	(9,367)	(5,934)
- Equity	1,148	12,327
Purchases	1,000	-
Sales	(1,120)	(1,133)
Reallocation	7,653	-
At 31 December	157,652	158,338
Total gains for the year included in consolidated income statement for 31 December	6,379	2,272

8. INVESTMENT IN ASSOCIATES

Investment in associated companies, as adjusted for the Group's share of their results comprise:

Name of company	2017	% of Share-holding	2016	% of Share-holding	Country	Activity
Unlisted:						
Solidarity Group Holding B.S.C. (C)	68,834	36	68,076	36	Bahrain	Takaful
Citic International Assets Management Limited	-	-	74,588	20	Hong Kong	Asset management
Sanpak Engineering Industries (Pvt) Limited	933	31	536	31	Pakistan	Manufacturing
Misr Company for Packing Materials "Egywrap"	2,461	23	2,224	23	Egypt	Trading
Faysal Asset Management Limited	210	30	441	30	Pakistan	Asset management
Ithraa Capital Company	4,183	23	3,858	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	107,619	30	107,775	31	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	1,679	40	1,679	40	Bahrain	Real estate
Islamic Trading Company E.C	288	24	669	24	Bahrain	Trading
Listed:						
BBK B.S.C	-	-	408,557	25	Bahrain	Banking
	186,207		668,403			

Investment in associates include conventional investments totalling \$107.6 million (31 December 2016: \$590.9 million).

Certain assets totalling \$2.5 million (31 December 2016: \$2.2 million) included above are held by third parties as nominee on behalf of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

8. INVESTMENT IN ASSOCIATES (Continued)

Amortisation charge for the intangible assets for the year ended 31 December 2017 amounted to \$3.4 million (31 December 2016: \$6.7 million)

Summarised financial position of associates that have been equity accounted:

	31 December 2017	31 December 2016
Total assets	898,010	14,176,938
Total liabilities	295,526	11,589,096
Total revenues	149,531	413,721
Total net profit	20,723	166,421

9. RESTRICTED INVESTMENT ACCOUNTS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment in restricted investment accounts	140,215	7,500	147,715	103,253	43,876	147,129
Less: provisions	(72,819)	-	(72,819)	(58,651)	(8,626)	(67,277)
	67,396	7,500	74,896	44,602	35,250	79,852

The movement in provisions is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	58,651	8,626	67,277	58,723	8,626	67,349
Charge for the year	4,778	-	4,778	-	-	-
Reclassification	8,626	(8,626)	-	-	-	-
Exchange differences and other movements	764	-	764	(72)	-	(72)
At 31 December	72,819	-	72,819	58,651	8,626	67,277

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

10. ASSETS ACQUIRED FOR LEASING

	31 December 2017			31 December 2016		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	391,713	(43,953)	347,760	293,284	(37,080)	256,204

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

	31 December 2017	31 December 2016
Relating to owners	6,535	9,553
Relating to unrestricted investment accounts	341,225	246,651
	347,760	256,204

11. INVESTMENT IN REAL ESTATE

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	277,423	-	277,423	261,623	-	261,623
Less: provisions	(29,521)	-	(29,521)	(19,029)	-	(19,029)
	247,902	-	247,902	242,594	-	242,594

Fair value of investment properties at the year end approximates their carrying value.

Certain assets totalling \$1.2 million (31 December 2016: \$1.2 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provisions for investment in real estate is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	19,029	-	19,029	17,282	-	17,282
Charge for the year	12,993	-	12,993	2,900	-	2,900
Write back during the year	-	-	-	-	-	-
Utilised during the year	-	-	-	-	-	-
Reclassification	(4,334)	-	(4,334)	-	-	-
Exchange differences and other movements	1,833	-	1,833	(1,153)	-	(1,153)
At 31 December	29,521	-	29,521	19,029	-	19,029

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

12. OTHER ASSETS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	152,343	40,127	192,470	158,202	98,004	256,206
Due from related parties	10,922	-	10,922	93,582	-	93,582
Taxes – deferred	22,482	-	22,482	29,800	-	29,800
Taxes – current	27,424	-	27,424	20,185	-	20,185
Assets acquired against claims	17,280	-	17,280	18,529	-	18,529
	230,451	40,127	270,578	320,298	98,004	418,302
Provision for impairment	(62,084)	(12,255)	(74,339)	(44,685)	(11,963)	(56,648)
	168,367	27,872	196,239	275,613	86,041	361,654

The movement in provisions is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	44,685	11,963	56,648	62,141	12,188	74,329
Charge for the year	14,898	-	14,898	866	-	866
Write back during the year	-	-	-	(915)	-	(915)
Utilised during the year	(1,301)	-	(1,301)	(18,629)	(63)	(18,692)
Reclassification	3,299	292	3,591	-	-	-
Exchange differences and other movements	503	-	503	1,222	(162)	1,060
At 31 December	62,084	12,255	74,339	44,685	11,963	56,648

13. ASSETS CLASSIFIED AS HELD-FOR-SALE

The Group has initiated an active program to locate a buyer for certain assets. Accordingly, these assets were consequently presented as an asset classified as held for sale in the consolidated statement of financial position.

At the reporting date, the assets classified as held for sale amounted to \$478.4 million.

Assets classified as held-for-sale amounting to \$411 million is pledged as collateral against borrowings (note 17) with the terms and conditions in the ordinary course of business.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

14. FIXED ASSETS

	Relating to owners							
	31 December 2017				31 December 2016			
	Cost	Accumulated depreciation	Provision for impairment	Net book amount	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	129,063	(12,890)	(2,859)	113,314	106,633	(13,256)	(2,804)	90,573
Leasehold improvements	34,708	(21,822)	-	12,886	29,845	(21,544)	-	8,301
Furniture and equipment	76,847	(63,309)	-	13,538	75,045	(62,033)	-	13,012
Motor vehicles	3,146	(2,064)	-	1,082	3,240	(2,145)	-	1,095
	243,764	(100,085)	(2,859)	140,820	214,763	(98,978)	(2,804)	112,981

Depreciation charge for the year ended 31 December 2017 amounted to \$7.5 million (31 December 2016: \$5.9 million)

15. INTANGIBLE ASSETS

	Relating to owners				
	31 December 2017				
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	87,830	-	(8,500)	(9,231)	70,099
Customer relations	113,565	(62,816)	-	(10,381)	40,368
Core deposits	155,546	(88,474)	-	(20,324)	46,748
Others	30,659	(25,748)	-	-	4,911
	387,600	(177,038)	(8,500)	(39,936)	162,126

	Relating to owners				
	31 December 2016				
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	87,830	-	(8,500)	(9,231)	70,099
Customer relations	113,565	(55,966)	-	(10,604)	46,995
Core deposits	155,546	(80,696)	-	(20,324)	54,526
Others	29,312	(23,705)	-	-	5,607
	386,253	(160,367)	(8,500)	(40,159)	177,227

Amortisation charge for the year ended 31 December 2017 amounted to \$16.8 million (31 December 2016: \$16.8 million)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2017	31 December 2016
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	62,570	66,070
Faysal Bank Limited	7,529	7,529
	70,099	73,599

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

16. CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to \$215.6 million (31 December 2016: \$196.3 million which was subject to sanctions under US, EU and UN measures until January 2016).

17. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	1,051,925	40,372	1,092,297	1,095,908	11,792	1,107,700
Due to financial and other institutions	51,667	-	51,667	33,813	-	33,813
	1,103,592	40,372	1,143,964	1,129,721	11,792	1,141,513

Due to banks, financial and other institutions include balances totalling \$432.1 million from two counterparties (31 December 2016: \$417.2 million which were subject to sanctions under US, EU and UN measures until January 2016) and having contractual maturity ranging to up to one month.

Due to banks, financial and other institutions include conventional deposits totalling \$457.1 million (31 December 2016: \$505.2 million), accepted by a subsidiary of Ithmaar.

At 31 December 2017, there were collateralized borrowings in aggregate \$117.7 million (31 December 2016: \$134.5 million).

Cash dividends amounting to \$21.8million (31 December 2016: \$14.6 million) on certain shares pledged as collateral was directly received by the lender (as per agreed terms and conditions) during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

18. DUE TO INVESTORS

	Relating to owners	
	31 December 2017	31 December 2016
Due to corporate institutions	987,820	1,153,623
Due to individuals	849,545	668,559
Due to financial institutions	70,606	81,430
	1,907,971	1,903,612

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

19. OTHER LIABILITIES

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	282,937	103,316	386,253	229,978	105,449	335,427
Due to related parties	40,089	-	40,089	2,188	-	2,188
Provision for taxation - current	948	-	948	1,006	-	1,006
Provision for taxation - deferred	4,355	-	4,355	4,001	-	4,001
	328,329	103,316	431,645	237,173	105,449	342,622

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

20. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

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

	Notes	31 December 2017	31 December 2016
Cash and balances with banks and central banks	3	70,949	54,477
Murabaha and other financings	5	1,474,862	1,416,737
Investment in mudaraba	6	-	14,425
Musharaka financing		359,083	211,926
Investment in associates	8	-	4,340
Sukuk and investment securities	7	232,885	229,646
Restricted investment accounts	9	7,500	35,250
Assets acquired for leasing	10	341,225	246,651
Other assets	12	27,872	86,041
Due from the Group (net)		742,957	734,911
		3,257,333	3,034,404
Customers' current accounts	16	(285,730)	(147,469)
Due to banks, financial and other institutions	17	(40,372)	(11,792)
Other liabilities	19	(103,316)	(105,449)
Equity of unrestricted investment accountholders		2,827,915	2,769,694

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to \$29.4 million (31 December 2016: \$59.6 million). The movement of impairment provisions relating to unrestricted investment accountholders has been disclosed in note 30.

Other liabilities include profit equalization reserve and the movement is as follows:

	31 December 2017	31 December 2016
At 1 January	17,548	12,547
Net addition during the year	-	5,001
At 31 December	17,548	17,548

Other liabilities include investment risk reserve and the movement is as follows:

	31 December 2017	31 December 2016
At 1 January	17,850	8,804
Net addition during the year	3,100	5,000
Transfer (to)/ from general provision (note 30)	(3,000)	4,046
At 31 December	17,950	17,850

The average gross rate of return in respect of unrestricted investment accounts was 5% for 31 December 2017 (31 December 2016: 4.7%) of which 2.9% (31 December 2016: 2.8%) was distributed to the investors and the balance was either set aside as provisions, management fees (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

21. MINORITY INTEREST

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

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

	31 December 2017		31 December 2016	
	Minority %		Minority %	
Faysal Bank Limited	33	113,980	33	109,780
Health Island B.S.C. (C)	50	49,386	50	63,176
Cityview Real Estate Development B.S.C. (C)	49	(4,490)	49	(2,694)
Sakana Holistic Housing Solutions B.S.C. (C)	50	4,165	50	5,079
		163,041		175,341

Minority interest in the consolidated income statement of \$12.3 million (31 December 2016: \$10.5 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

22. SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
Total outstanding	3,030,755	757,690
Treasury shares	(111,207)	(27,802)
At 31 December 2016 (Audited)	2,919,548	729,888
Issued and fully paid		
Total outstanding as at 1 January 2017	3,030,755	757,690
Treasury shares *	(120,595)	(30,149)
At 31 December 2017 (Audited)	2,910,160	727,541

Ithmaar's total issued and fully paid share capital at 31 December 2017 comprises 3,030,755,027 shares at \$0.25 per share amounting to \$757,688,757. The share capital of Ithmaar is denominated in United States Dollars and these shares are traded on Bahrain Bourse in United States dollars, Boursa Kuwait in Kuwaiti Dinars and Dubai Financial Market in Arab Emirates Dirham.

Ithmaar owned 120,595,238 of its own shares at 31 December 2017 (31 December 2016: 111,207,124). The shares are held as treasury shares and the Bank has the right to reissue these shares at a later date.

The shares relating to employee share incentive scheme have been reallocated to treasury shares during the year since the employees will be awarded Ithmaar Bank B.S.C. (c) shadow shares instead of Ithmaar Holding shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

23. EARNINGS PER SHARE (BASIC & DILUTED)

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

	31 December 2017	31 December 2016
Net loss attributable to shareholders (\$ '000)	(84,711)	3,279
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,957	2,910,160
Earnings per share (Basic & Diluted) - US Cents	(2.91)	0.11

Earnings per share on non-sharia compliant income and expenses is included under note 42.

24. INCOME FROM RESTRICTED INVESTMENT ACCOUNTS AS A MUDARIB

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

25. INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	31 December 2017	31 December 2016
Income from murabaha financing	9,259	10,624
Income from other financings	132,290	122,278
	141,549	132,902

26. INCOME FROM OTHER INVESTMENTS

	Relating to owners	
	31 December 2017	31 December 2016
Income from investment securities at amortised cost	83,458	111,897
Income from investment securities at fair value through equity	9,519	5,331
Income from investment securities at fair value through income statement	26,204	15,426
Income from investment in real estate	3,958	4,157
	123,139	136,811

27. OTHER INCOME

	Relating to owners	
	31 December 2017	31 December 2016
Income from banking services	46,227	43,129
Foreign exchange income/(loss)	(20,096)	4,423
Gain on disposal of fixed assets	545	877
Income from fees and commissions	1,171	3,865
	27,847	52,294

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

28. ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2017	31 December 2016
Salaries and other benefits	90,775	79,148
Office expenses	48,267	43,023
Professional fees	10,744	12,640
Other administrative expenses	31,064	27,803
	180,850	162,614

29. SOCIAL RESPONSIBILITY

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

30. PROVISIONS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	659,325	59,626	718,951	683,717	90,964	774,681
Charge for the year	87,008	-	87,008	47,897	5,550	53,447
Write back during the year	(19,420)	-	(19,420)	(14,595)	-	(14,595)
Transfer from Investment Risk Reserve (note 20)	-	3,000	3,000	(4,046)	-	(4,046)
Utilised during the year	(2,920)	(7,222)	(10,142)	(52,309)	(36,888)	(89,197)
Reclassification	25,916	(25,916)	-	-	-	-
Exchange differences	(10,194)	(62)	(10,256)	(1,339)	-	(1,339)
At 31 December	739,715	29,426	769,141	659,325	59,626	718,951

The allocation of the provision to the respective assets is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	306,644	17,171	323,815	286,791	21,756	308,547
Investment in mudaraba	12,060	-	12,060	733	11,581	12,314
Investment in associates	70,528	-	70,528	70,528	-	70,528
Sukuk and investment securities	174,700	-	174,700	167,604	5,700	173,304
Restricted investment accounts	72,819	-	72,819	58,651	8,626	67,277
Fixed assets	2,859	-	2,859	2,804	-	2,804
Investment in real estate	29,521	-	29,521	19,029	-	19,029
Intangible assets	8,500	-	8,500	8,500	-	8,500
Other assets	62,084	12,255	74,339	44,685	11,963	56,648
	739,715	29,426	769,141	659,325	59,626	718,951

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

30. PROVISIONS (CONTINUED)

Total provisions of \$769.1 million (31 December 2016: \$719 million) includes \$35.2 million (31 December 2016: \$28.9 million) held as general provisions. The movement in general provision is as follows:

	Relating to owners	
	31 December 2017	31 December 2016
At 1 January	28,918	16,492
Charge for the year	21,494	17,787
Transfer to Investment Risk Reserve (note 20)	-	(4,046)
Allocations	(15,166)	(1,315)
Exchange differences	-	-
At 31 December	35,246	28,918

General provision of \$35.2 million (31 December 2016: \$28.9 million) includes \$31.8 million (31 December 2016: \$13.8 million) in respect of Murabaha and other financings.

31. OVERSEAS TAXATION

	Relating to owners	
	31 December 2017	31 December 2016
Current taxes	17,752	14,338
Deferred taxes	9,121	8,607
	26,873	22,945

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

	31 December 2017	31 December 2016
Current tax receivable/(payable)		
At 1 January	19,179	15,538
Charge for the year	(17,752)	(14,338)
Payments made	22,731	14,791
Exchange differences and other movements	2,318	3,188
At 31 December	26,476	19,179

	31 December 2017	31 December 2016
Deferred tax asset/(liability)		
At 1 January	25,799	37,413
Charge for the year	(9,121)	(8,607)
Charges due to fair value reserve	2,280	(3,605)
Exchange differences and other movements	(831)	598
At 31 December	18,127	25,799

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

32. SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

- (i) Retail and Corporate banking, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.
- (ii) Trading Portfolio, where the Group trades in equity deals, foreign exchange and other transactions with the objective of realizing short-term gains.
- (iii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2017					31 December 2016				
	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total
Operating income	173,810	43,122	13,578	51	230,561	209,911	46,713	3,461	2,063	262,148
Total expenses	(168,795)	(11,165)	(28,323)	(218)	(208,501)	(171,336)	(2,882)	(17,646)	(239)	(192,103)
Net income/(loss) before provision and overseas taxation	5,015	31,957	(14,745)	(167)	22,060	38,575	43,831	(14,185)	1,824	70,045
Provision and overseas taxation	(46,403)	(12,633)	(35,462)	37	(94,461)	(25,308)	(18,996)	(11,169)	(774)	(56,247)
Net income/(loss) for the year	(41,388)	19,324	(50,207)	(130)	(72,401)	13,267	24,835	(25,354)	1,050	13,798
Attributable to:										
Equity holders of Ithmaar	(47,199)	12,864	(50,292)	(84)	(84,711)	9,896	16,533	(23,763)	613	3,279
Minority interests	5,811	6,460	85	(46)	12,310	3,371	8,302	(1,591)	437	10,519
	(41,388)	19,324	(50,207)	(130)	(72,401)	13,267	24,835	(25,354)	1,050	13,798
Total assets	5,015,399	1,822,973	1,764,533	8,454	8,611,359	5,498,591	1,646,567	1,185,085	11,067	8,341,310
Total liabilities and equity of unrestricted investment account holders	7,463,066	525,771	104,055	96	8,092,988	7,156,975	507,141	74,356	82	7,738,554

The Group constitutes of four geographical segments which are Europe, North America, Middle East & Africa, Asia and others

	31 December 2017						31 December 2016					
	Europe	North America	Middle East & Africa	Asia	Others	Total	Europe	North America	Middle East & Africa	Asia	Others	Total
Operating income	3,793	1,797	34,358	188,493	2,120	230,561	2,566	2,793	70,801	183,869	2,119	262,148
Total expenses	(10,501)	-	(74,733)	(123,267)	-	(208,501)	(9,403)	-	(67,898)	(114,795)	(7)	(192,103)
Net income/(loss) before provision and overseas taxation	(6,708)	1,797	(40,375)	65,226	2,120	22,060	(6,837)	2,793	2,903	69,074	2,112	70,045
Provision and overseas taxation	(922)	-	(70,574)	(22,965)	-	(94,461)	(1,439)	(714)	(23,486)	(30,608)	-	(56,247)
Net income/(loss) for the year	(7,630)	1,797	(110,949)	42,261	2,120	(72,401)	(8,276)	2,079	(20,583)	38,466	2,112	13,798
Attributable to:												
Equity holders of the Ithmaar	(7,630)	1,797	(109,176)	28,178	2,120	(84,711)	(8,276)	2,079	(18,243)	25,607	2,112	3,279
Minority interests	-	-	(1,773)	14,083	-	12,310	-	-	(2,340)	12,859	-	10,519
	(7,630)	1,797	(110,949)	42,261	2,120	(72,401)	(8,276)	2,079	(20,583)	38,466	2,112	13,798
Total assets	453,090	40,400	3,580,212	4,509,165	28,492	8,611,359	444,702	82,789	3,379,948	4,328,237	105,634	8,341,310
Total liabilities and equity of unrestricted investment account holders	251,374	23,847	3,729,712	4,084,822	3,233	8,092,988	199,075	16,599	3,586,489	3,919,297	17,094	7,738,554

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

33. ZAKAH

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

34. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities	31 December 2017	31 December 2016
Acceptances and endorsements	62,824	72,669
Guarantees and irrevocable letters of credit	878,393	746,789
Customer and other claims	324,995	353,571
	1,266,212	1,173,029
Commitments	31 December 2017	31 December 2016
Undrawn facilities, financing lines and other commitments to finance	1,897,757	1,849,842

35. CURRENCY RISK

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

31 December 2017	United States Dollar	Pakistan Rupee	Swiss Franc	Bahraini Dinar	Euro	UAE Dirham	Hong Kong Dollar	Other	Total
Cash and balances with banks and central banks	89,352	290,099	1,418	205,502	87,620	12,677	28	15,242	701,938
Commodity and other placements with banks, financial and other institutions	-	82,018	-	149,380	29,994	-	-	-	261,392
Murabaha and other financings	452,712	1,718,927	-	1,310,506	9,806	18,685	-	64,997	3,575,633
Musharaka financing	-	369,369	-	-	-	-	-	-	369,369
Investment in mudaraba	5,760	-	-	-	-	-	-	-	5,760
Sukuk and investment securities	148,434	1,635,357	739	70,480	5,201	-	-	2,674	1,862,885
Investment in associates	-	1,143	-	178,421	-	-	-	6,643	186,207
Restricted investment accounts	72,103	-	-	-	2,793	-	-	-	74,896
Assets acquired for leasing	4,046	-	-	343,714	-	-	-	-	347,760
Investment in real estate	32,158	10,595	43,528	126,703	-	-	-	34,918	247,902
Other assets	31,648	120,631	6,148	24,503	3,098	-	-	10,211	196,239
Assets classified as held-for-sale	-	-	-	411,466	-	-	66,966	-	478,432
Fixed assets	19,619	54,158	(874)	67,917	-	-	-	-	140,820
Intangible assets	148,575	13,551	-	-	-	-	-	-	162,126
Total assets	1,004,407	4,295,848	50,959	2,888,592	138,512	31,362	66,994	134,685	8,611,359
Customer current accounts	138,305	1,018,779	-	354,340	252,270	91	-	17,708	1,781,493
Due to banks, financial and other institutions	169,380	476,479	-	62,176	106,973	328,918	-	38	1,143,964
Due to investors	120,026	1,761,396	-	-	7,788	-	-	18,761	1,907,971
Other liabilities	421	171,155	-	258,221	1,837	-	-	11	431,645
Total liabilities	428,132	3,427,809	-	674,737	368,868	329,009	-	36,518	5,265,073
Equity of unrestricted investment accountholders	454,905	352,398	-	2,020,042	570	-	-	-	2,827,915
Total liabilities and equity of unrestricted investment accountholders	883,037	3,780,207	-	2,694,779	369,438	329,009	-	36,518	8,092,988
Contingent liabilities and commitments	624,247	1,872,336	13,255	510,623	86,250	2,331	-	54,927	3,163,969
31 December 2016									
Total assets	1,025,155	4,154,225	49,099	2,580,226	248,311	55,044	74,626	154,624	8,341,310
Total liabilities and equity of unrestricted investment accountholders	835,738	3,692,830	9,047	2,490,035	334,576	342,697	-	33,631	7,738,554
Contingent liabilities and commitments	832,301	1,544,133	20,028	525,477	47,807	4,645	-	48,480	3,022,871

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

36. MATURITY PROFILE

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

31 December 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	641,947	59,991	-	-	-	701,938
Commodity and other placements with banks, financial and other institutions	261,392	-	-	-	-	261,392
Murabaha and other financings	475,364	634,602	422,474	1,277,183	766,010	3,575,633
Musharaka financing	6,560	9,028	23,469	180,202	150,110	369,369
Investment in mudaraba	-	-	-	5,760	-	5,760
Sukuk and investment securities	712,358	560,245	144,911	275,748	169,623	1,862,885
Investment in associates	-	-	-	-	186,207	186,207
Restricted investment accounts	-	-	-	-	74,896	74,896
Assets acquired for leasing	3,390	526	7,632	8,247	327,965	347,760
Investment in real estate	-	-	-	44,350	203,552	247,902
Other assets	103,876	10,453	7,564	46,245	28,101	196,239
Assets classified as held-for-sale	-	-	478,432	-	-	478,432
Fixed assets	16	18	594	12,305	127,887	140,820
Intangible assets	-	-	492	5,944	155,690	162,126
Total assets	2,204,903	1,274,863	1,085,568	1,855,984	2,190,041	8,611,359
Customer current accounts	1,781,493	-	-	-	-	1,781,493
Due to banks, financial and other institutions	783,579	131,365	193,449	21,972	13,599	1,143,964
Due to investors	1,205,274	308,800	385,446	8,451	-	1,907,971
Other liabilities	263,780	15,612	84,141	61,864	6,248	431,645
Total liabilities	4,034,126	455,777	663,036	92,287	19,847	5,265,073
Equity of unrestricted investment accountholders	1,242,575	312,958	1,005,427	266,955	-	2,827,915
Total liabilities and equity of unrestricted investment accountholders	5,276,701	768,735	1,668,463	359,242	19,847	8,092,988
Contingent liabilities and commitments	1,516,946	394,922	830,791	372,412	48,898	3,163,969
31 December 2016						
Total assets	1,766,261	989,469	1,376,364	1,879,955	2,329,261	8,341,310
Total liabilities and equity of unrestricted investment accountholders	4,980,248	755,400	1,447,756	541,373	13,777	7,738,554
Contingent liabilities and commitments	1,499,617	479,702	475,833	534,535	33,184	3,022,871

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

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

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

31 December 2017	Banks and Financial Institutions	Trading and Manufacturing	Property and Construction	Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	701,938	-	-	-	-	-	-	701,938
Commodity and other placements with banks, financial and other institutions	261,392	-	-	-	-	-	-	261,392
Murabaha and other financings	776,884	852,534	114,157	37,807	1,410,364	230,967	152,920	3,575,633
Musharaka financing	60,258	164,087	38,417	19,217	63,046	19,304	5,040	369,369
Investment in mudaraba	5,760	-	-	-	-	-	-	5,760
Sukuk and investment securities	1,658,688	74,980	30,036	11,313	-	962	86,906	1,862,885
Investment in associates	180,846	3,682	1,679	-	-	-	-	186,207
Restricted investment accounts	-	-	74,896	-	-	-	-	74,896
Assets acquired for leasing	525	13,068	5,753	-	328,414	-	-	347,760
Investment in real estate	-	-	247,902	-	-	-	-	247,902
Other assets	82,053	-	26,300	-	26,988	-	60,898	196,239
Assets classified as held-for-sale	478,432	-	-	-	-	-	-	478,432
Fixed assets	54,158	-	86,662	-	-	-	-	140,820
Intangible assets	162,126	-	-	-	-	-	-	162,126
Total assets	4,423,060	1,108,351	625,802	68,337	1,828,812	251,233	305,764	8,611,359
Customer current accounts	14,910	449,366	212,244	112,531	492,728	16,637	483,077	1,781,493
Due to banks, financial and other institutions	691,036	-	-	452,928	-	-	-	1,143,964
Due to investors	463,416	455,667	52,273	148,500	346,969	13,445	427,701	1,907,971
Other liabilities	132,281	10	79,511	328	69,310	-	150,205	431,645
Total liabilities	1,301,643	905,043	344,028	714,287	909,007	30,082	1,060,983	5,265,073
Equity of unrestricted investment accountholders	283,627	221,376	76,672	142,081	1,883,674	-	220,485	2,827,915
Total liabilities and equity of unrestricted investment accountholders	1,585,270	1,126,419	420,700	856,368	2,792,681	30,082	1,281,468	8,092,988
Contingent liabilities and commitments	1,204,590	1,106,593	61,459	30,574	16,220	65,345	679,188	3,163,969
31 December 2016								
Total assets	4,326,647	958,860	739,039	211,606	1,475,265	259,372	370,521	8,341,310
Total liabilities and equity of unrestricted investment accountholders	2,126,687	1,270,749	224,082	482,778	2,692,885	29,138	912,235	7,738,554
Contingent liabilities and commitments	1,410,764	718,585	254,420	35,644	424,273	131,696	47,489	3,022,871

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

37. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (CONTINUED)

31 December 2017	Asia/ Pacific	Middle East	Europe	North America	Others	Total
Cash and balances with banks and central banks	359,849	225,209	96,527	20,353	-	701,938
Commodity and other placements with banks, financial and other institutions	82,018	179,374	-	-	-	261,392
Murabaha and other financings	1,790,283	1,493,729	263,129	-	28,492	3,575,633
Musharaka financing	369,369	-	-	-	-	369,369
Investment in mudaraba	-	-	-	5,760	-	5,760
Sukuk and investment securities	1,644,687	208,295	5,943	3,960	-	1,862,885
Investment in associates	1,143	185,064	-	-	-	186,207
Restricted investment accounts	-	74,896	-	-	-	74,896
Assets acquired for leasing	-	347,760	-	-	-	347,760
Investment in real estate	14,221	155,246	78,435	-	-	247,902
Other assets	112,921	63,935	9,056	10,327	-	196,239
Assets classified as held-for-sale	66,966	411,466	-	-	-	478,432
Fixed assets	54,158	86,662	-	-	-	140,820
Intangible assets	13,550	148,576	-	-	-	162,126
Total assets	4,509,165	3,580,212	453,090	40,400	28,492	8,611,359
Customer current accounts	1,130,972	385,389	241,139	23,847	146	1,781,493
Due to banks, financial and other institutions	497,482	643,395	-	-	3,087	1,143,964
Due to investors	1,907,966	5	-	-	-	1,907,971
Other liabilities	195,879	225,531	10,235	-	-	431,645
Total liabilities	3,732,299	1,254,320	251,374	23,847	3,233	5,265,073
Equity of unrestricted investment accountholders	352,523	2,475,392	-	-	-	2,827,915
Total liabilities and equity of unrestricted investment accountholders	4,084,822	3,729,712	251,374	23,847	3,233	8,092,988
Contingent liabilities and commitments	2,608,341	542,427	13,201	-	-	3,163,969
31 December 2016						
Total assets	4,328,237	3,379,948	444,702	82,789	105,634	8,341,310
Total liabilities and equity of unrestricted investment accountholders	3,919,297	3,586,489	199,075	16,599	17,094	7,738,554
Contingent liabilities and commitments	2,447,329	553,408	19,776	-	2,358	3,022,871

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

38. RISK MANAGEMENT

Profit rate risk

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

31 December 2017	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	341,039	-	-	-	-	360,899	701,938
Commodity and other placements with banks, financial and other institutions	82,018	179,374	-	-	-	-	261,392
Murabaha and other financings	537,870	299,787	569,756	1,363,096	805,124	-	3,575,633
Musharaka financing	70,230	56,070	96,606	113,431	33,032	-	369,369
Sukuk and investment securities	719,443	733,941	46,826	86,885	95	275,695	1,862,885
Assets acquired for leasing	28,800	-	7,632	2,613	308,715	-	347,760
Other assets	-	-	-	-	-	196,239	196,239
Total financial assets	1,779,400	1,269,172	720,820	1,566,025	1,146,966	832,833	7,315,216
Customer current accounts	-	-	-	-	-	1,781,493	1,781,493
Due to banks, financial and other institutions	808,558	116,168	187,658	17,981	13,599	-	1,143,964
Due to investors	158,633	374,027	1,302,151	73,155	5	-	1,907,971
Other liabilities	-	-	-	39,912	-	391,733	431,645
Total financial liabilities	967,191	490,195	1,489,809	131,048	13,604	2,173,226	5,265,073
Equity of unrestricted investment accountholders	1,246,504	320,604	993,781	267,026	-	-	2,827,915
Total financial liabilities and equity of unrestricted investment accountholders	2,213,695	810,799	2,483,590	398,074	13,604	2,173,226	8,092,988
Total repricing gap	(434,295)	458,373	(1,762,770)	1,167,951	1,133,362	(1,340,393)	(777,772)
31 December 2016							
Total financial assets	799,662	1,130,305	1,490,541	1,305,814	1,211,624	1,107,882	7,045,828
Total financial liabilities and equity of unrestricted investment accountholders	1,960,451	699,339	1,583,098	955,566	617,320	1,922,780	7,738,554
Total repricing gap	(1,160,789)	430,966	(92,557)	350,248	594,304	(814,898)	(692,726)

39. RELATED PARTY TRANSACTIONS AND BALANCES

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

- Directors and companies in which they have an ownership interest.
- Major shareholders of Ithmaar, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
- Associated companies of Ithmaar.
- Senior management.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

39. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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

Significant balances with related parties comprise:

	31 December 2017				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	431,320	-	12,809	-	444,129
Sukuk and investment securities	-	68,234	-	-	68,234
Investment in associates	-	186,207	-	-	186,207
Other assets	-	10,456	-	466	10,922
Assets classified as held-for-sale	-	478,432	-	-	478,432
Liabilities					
Customers' current accounts	-	81,863	-	918	82,781
Due to banks, financial and other institutions	-	51,667	-	-	51,667
Equity of unrestricted investment accounts	28,287	18,999	540	2,213	50,039
Other liabilities	40,089	-	-	-	40,089
Income					
Return to unrestricted investment accounts	803	779	20	-	1,602
Income from murabaha and other financings	4,213	-	-	-	4,213
Share of profit/(loss) after tax from associates	-	22,995	-	-	22,995
Other income	-	1,171	-	-	1,171
Profit paid to banks, financial and other institutions – net	-	1,342	-	-	1,342
Expenses					
Administrative and general expenses	788	-	150	-	825
	31 December 2016				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	342,775	-	12,809	-	355,584
Sukuk and investment securities	9,778	-	-	-	9,778
Investment in associates	-	668,403	-	-	668,403
Other assets	82,989	10,456	-	137	93,582
Liabilities					
Customers' current accounts	-	20,502	-	432	20,934
Due to banks, financial and other institutions	-	33,813	-	-	33,813
Equity of unrestricted investment accounts	23,249	22,640	541	1,276	47,706
Other liabilities	2,134	54	-	-	2,188
Income					
Return to unrestricted investment accounts	-	-	-	-	-
Income from murabaha and other financings	3,639	-	-	-	3,639
Share of profit/(loss) after tax from associates	-	46,481	-	-	46,481
Other income	-	3,874	-	-	3,874
Profit paid to banks, financial and other institutions – net	-	1,342	-	-	1,342
Expenses					
Administrative and general expenses	838	-	-	-	838

Certain collaterals amounting to \$411 million with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

40. CAPITAL MANAGEMENT

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

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

The Group does not engage in any banking activity at solo level, hence Basel III requirements are not applicable. The Group complies with CBB directives with respect to its investment firm category 1 license.

41. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2017 (31 December 2016: Nil).

42. NON-SHARIA COMPLIANT INCOME AND EXPENSES

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

	Year ended	
	31 December 2017	31 December 2016
INCOME		
Group's share of income from funds under management	68	81
Income from other financings	132,290	122,278
Share of profit after tax from associates - note (i)	19,190	43,706
Income from investments	116,506	134,431
Other income	30,324	28,851
Gross income	298,378	329,347
Less: profit paid to banks, financial and other institutions (net) - note (ii)	(119,750)	(116,055)
Total income	178,628	213,292
EXPENSES		
Administrative and general expenses - note (ii)	(95,977)	(95,761)
Depreciation and amortisation	(17,324)	(20,602)
Total expenses	(113,301)	(116,363)
Net income before provision for impairment and overseas taxation	65,327	96,929
Provision for impairment (net)	(10,831)	(9,268)
Net income before overseas taxation	54,496	87,661
Overseas taxation	(25,989)	(21,619)
NET INCOME FOR THE YEAR	28,507	66,042
Attributable to:		
Equity holders of the Bank	18,209	54,906
Minority interests	10,298	11,136
	28,507	66,042
Basic and diluted earnings per share	US Cts 0.63	US Cts 1.89

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

42. NON-SHARIA COMPLIANT INCOME AND EXPENSES (CONTINUED)

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

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

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 197 (2016: 146 branches) out of total 404 branches (2016: 354 branches).

43. COMPARATIVES

Certain comparatives figures have been reclassified to conform to the current year presentation.

Share Information

Shareholding Structure

	31-Dec-17			31-Dec-16		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
1-10,000	126	629,044	0.02	116	585,539	0.02
10,001 - 100,000	2,162	50,266,286	1.66	2,145	47,449,319	1.57
100,001 - 1,000,000	509	170,446,188	5.62	419	139,866,995	4.61
1,000,001 - 10,000,000	151	451,603,557	14.90	137	427,715,337	14.11
over 10,000,000	31	2,357,809,952	77.80	32	2,415,137,837	79.69
Total	2,979	3,030,755,027	100.00	2,849	3,030,755,027	100.00

Shareholding by Nationality

Country	31-Dec-17			31-Dec-16		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Bahamas	2	959,467,864	31.66	2	959,467,864	31.66
Bahrain	763	343,378,683	11.33	772	393,472,161	12.98
KSA	848	720,193,617	23.76	862	727,264,149	24.00
Kuwait	767	755,892,728	24.94	606	691,159,614	22.80
Other GCC Countries	228	113,496,752	3.75	229	113,507,312	3.75
Other Countries	371	138,325,383	4.56	378	145,883,927	4.81
Total	2,979	3,030,755,027	100.00	2,849	3,030,755,027	100.00

Shares owned by Government – December 2017

	No. of Shares
Ministry of Finance, Kingdom of Bahrain	22,150,000

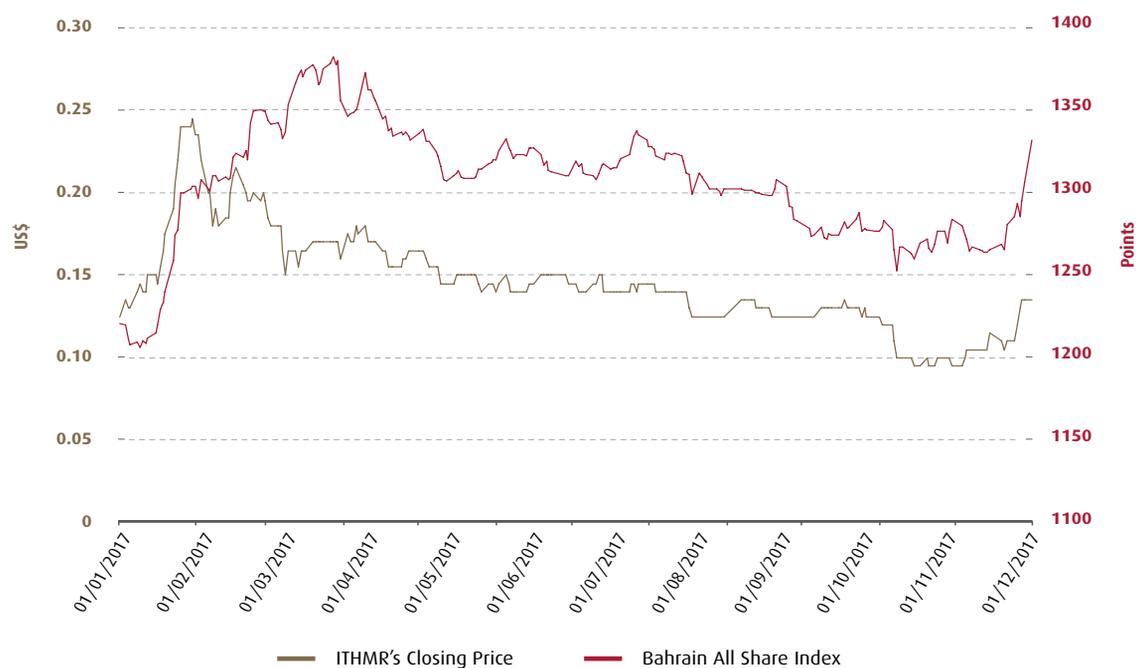
Major Shareholders

Shareholder	No. of Shares	%
Dar Al-Maal Al-Islami Trust	790,416,000	26.08
Islamic Inv. Co. of the Gulf	594,129,224	19.60
Nizar A. Razaq Al-Qurtas & Co.	253,058,649	8.35
Others	1,393,151,154	45.97
Total	3,030,755,027	100.00

Share Information Continued

Bahrain Bourse

ITHMR's Trading Activity – Bahrain



Performance in the Bahrain Bourse

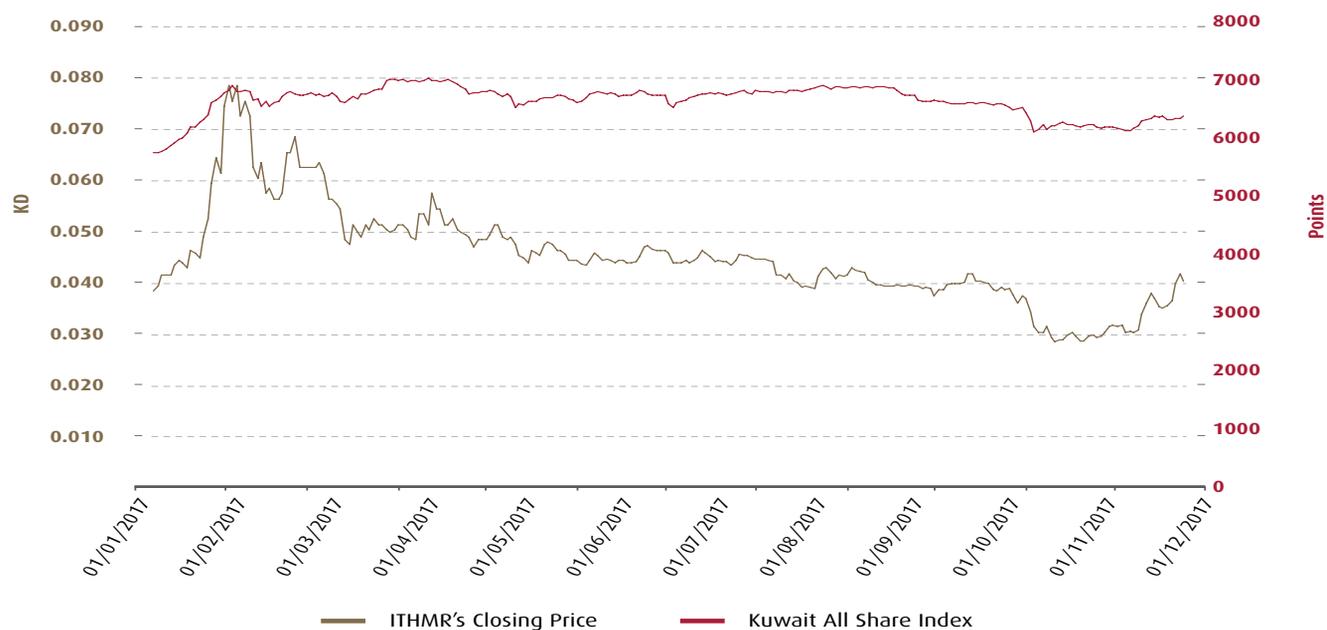
Stock Code: ITHMR	Change in 2017			
Share Price Relative to Indices 2017	Open	Close	Points	%
ITHMR's Share Price (US \$)	0.125	0.135	0.01	8.00
Bahrain All Share Index	1,220.45	1,331.71	111.26	9.12
Commercial Banks Sector's Index	2,481.78	2,772.59	290.81	11.72
Bahrain Islamic Index	909.81	1,089.28	179.47	19.73

ITHMR'S Share Trading (Bahrain)

	2017	2016
Volume, No. of Shares	123,299,710	100,167,894
Value, US\$	20,510,857	11,833,493

Boursa Kuwait

ITHMR's Trading Activity – Kuwait



Performance in Boursa Kuwait

Stock Code: ITHMR			Change in 2017	
Share Price Relative to Indices 2017	Open	Close	Points	%
ITHMR's Share Price (Fils Kuwaiti)	38	40	2	5.26
Banks (IXW)	432.45	482.31	49.86	11.53
Kuwait All Share Index	5,748.09	6,408.01	659.92	11.48
K 15 Index	888.30	914.87	26.57	2.99

ITHMR'S Share Trading (Kuwait)

	2017	2016
Volume, No. of Shares	2,658,182,208	1,413,088,992
Value, KWD	143,089,878	51,529,934

Corporate Information

Name of Company	Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.)
Legal Form	Ithmaar Holding B.S.C. is a Bahrain-based financial institution that is licensed and regulated as a Category 1 Investment Firm by the Central Bank of Bahrain. Ithmaar Holding B.S.C. is incorporated as a Bahrain Shareholding Company under Bahrain Commercial Law (Law No. 21 of 2001).
Company Registration Number	CR 15210
Stock Exchange Listings	Bahrain Bourse, Boursa Kuwait and Dubai Financial Market
Stock Code	"ITHMR"
Head Office	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P.O. Box 2820, Manama, Kingdom of Bahrain
Telephone	+973 1758 4000
Facsimile	+973 1758 4017
E-mail	info@ithmaarholding.com
Website	www.ithmaarholding.com
Accounting Year End	31 December
Compliance Officer	Hana Ahmed Al Murran – Head, Compliance and AML
Company Secretary	Dana Aqeel Raees – Head, Legal Department
Auditors	PriceWaterHouseCoppers ME Limited, P.O. Box 21144, Manama, Kingdom of Bahrain