بنك الاستثمار الدولي
INTERNATIONAL INVESTMENT BANK

ANNUAL REPORT | 2017

International Investment Bank (IIB)

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PRINCIPAL BANKERS AND PROFESSIONAL ADVISORS

Principal Bankers
Ahli United Bank, Bahrain
Al Salam Bank, Bahrain

External Auditors
KPMG Fakhro, Bahrain

External Legal Counsel
Zu'bi & Partners, Bahrain

بسم الله الرحمن الرحيم

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FOREWORD

IIB'S INVESTMENT PHILOSOPHY ENTAILS ESTABLISHING STRATEGIC ALLIANCES WITH REGIONAL AND INTERNATIONAL INSTITUTIONS.

PROFILE

ESTABLISHED IN 2003, INTERNATIONAL INVESTMENT BANK B.S.C. (C) (IIB) IS A FORWARD THINKING ISLAMIC WHOLESALE INVESTMENT BANK BASED IN THE KINGDOM OF BAHRAIN WITH AN AUTHORISED CAPITAL OF US$ 200 MILLION, AND A PAID UP CAPITAL OF US$ 110 MILLION. THE BANK BOASTS A STRONG SHAREHOLDER BASE COMPRISED OF HIGH NET WORTH INDIVIDUALS, BUSINESS HOUSES AND INSTITUTIONS SPANNING THE GCC STATES.

Through its wide network of international strategic partners, the Bank offers clients a diverse range of Shari'ah-compliant real estate and private equity products, and intensively manages these investments in order to maximise the yields at the time of exit. Since inception, IIB has been involved in investments worth almost US$ 3.0 billion.

VISION

To be a regional leader in private equity investments and real estate investments, mainly through the provision and management of high-quality, globally-diversified investment offerings in accordance with the principles of Islamic Shari'ah, to maximise shareholder value, to generate superior risk-adjusted returns for clients, to provide excellent career opportunities to all employees and to deal fairly with all stakeholders.

MISSION

To originate, manage and ultimately exit from a well-diversified range of innovative investment products in association with leading international strategic partners, to provide high-quality advisory services to clients, to operate in accordance with the highest standards of corporate governance, risk management, due diligence and ethical standards, and to attract and retain the best-qualified employees available.

FIVE YEAR FINANCIAL SUMMARY

Earnings (US$ millions)	2017	2016	2015	2014	2013
Total income	2.6	(4.4)	(9.7)	3.8	10.7
Total expenses	6.3	7.8	8.8	5.9	6.1
Share of profit of associate	-	-	-	0.7	0.4
Operating profit (loss)	(3.7)	(12.2)	(18.5)	(1.4)	4.7
Impairment charge and FX	(28.6)	(8.7)	(10.9)	(6.7)	0.9
Net income (loss)	(32.3)	(20.9)	(29.4)	(8.1)	6.0
Financial Position (US$ millions)					
Total assets	141.4	199.6	230.2	271.4	174.8
Cash and placements with financial institutions	6.1	11.6	39.4	62.6	37.9
Investments	131.9	184.4	187.1	204.6	124.1
Financing of specific investments	60.7	67.8	64.4	68.0	-
General unallocated financing	-	10.2	30.6	30.0	
Equity (attributable to equity holders of the parent)	71.7	103.2	127.0	160.1	164.4
Ratios					
Profitability					
Return on average equity (%)	(35.2)	(18.8)	(18.3)	(5.1)	3.8
Return on average assets (%)	(19.0)	(9.7)	(11.7)	(3.6)	3.5
Earnings per share (cents)	(28)	(18)	(25)	(7)	6
Cost-to-income ratio (%)	242	(178)	(90)	132	56.5
Capital					
Capital adequacy ratio (regulatory minimum 12.5%)	21	25	22	47	48
Equity / total assets (%)	55.3	55.8	57.3	62.7	98.2
Liquidity and Other					
Investments / total assets (%)	93.3	92.3	81.3	75.4	71.0
Liquid assets / total assets (%)	4.3	5.8	17.1	23.1	21.7
Assets under management (US$ millions)	131.7	181.2	282.3	311.4	323.7
Number of employees (at year end)	28	29	33	30	31

BOARD OF DIRECTORS' REPORT

FOR THE YEAR ENDED 2017

SAEED ABDUL JALIL AL FAHEEM
CHAIRMAN

THE BANK'S PRIORITIES DURING 2018 ARE TO MAINTAIN SUFFICIENT LEVELS OF LIQUIDITY AND CAPITAL ADEQUACY; MAINTAIN OPERATIONAL EFFICIENCIES; PRUDENT MANAGEMENT OF THE INVESTMENT PORTFOLIO WITH A FOCUS ON EXITING NON-STRATEGIC INVESTMENTS; AND PRESERVE SHAREHOLDER VALUE.

21%

IIB's Capital Adequacy Ratio remains strong at 21.0% on 31 December 2017.

US$131.9

The total investment portfolio was valued at US$ 131.9 million at 31 December 2017.

Dear Shareholders,

On behalf of the Board of Directors, I present the Annual Report and the Consolidated Financial Statements of International Investment Bank ("IIB") for the year ended 31 December 2017.

Financial Performance 2017 Review

The Bank was proactive in 2017 in taking steps to reduce operational expenses in line with the current needs of the business, in anticipation of a challenging economic environment. During the year, total income increased by US$ 7.0 million and total expenses reduced by US$ 1.5 million as compared with 2016. However, IIB's performance in 2017 was adversely affected by net impairment charges against investments and receivables of US$ 28.6 million, including US$ 25.7 million against its property investment portfolio located in the USA - a legal case for the recovery of the Bank's equity interest is ongoing.

Statement of Income

Total income in 2017 was US$ 2.6 million compared with a net negative income for 2016 of US$ 4.4 million, mainly due to net fair value gains on investments classified as "fair value through income statement" of US$ 1.0 million (2016: loss US$ 7.4 million). Total expenses reduced by 19% or US$ 1.5 million to US$ 6.4 million as compared to 2016, reflecting lower finance expenses.

The operating loss in 2017 decreased by 70% to US$ 3.7 million from US$ 12.2 million in the previous year. After deducting impairment allowances of US$ 28.6 million (2016: US$ 8.7 million), IIB incurred a net loss for the year of US$ 32.3 million, compared with US$ 20.9 million for 2016.

Statement of Financial Position

Total assets decreased from US$ 199.6 million at the 2016 year-end to US$ 141.4 million as at 31 December 2017, mainly reflecting the net loss for the year, net fair value losses on investments of US$ 0.7 million booked in equity, prepayment of the US$ 10.0 million remaining Wakala payable, and annual depreciation charge of US$ 3.5 million on the Ijarah leased asset. Total liabilities reduced in 2017 by 28% or US$ 25.1 million.

Total equity of US$ 78.2 million reflects a decrease from last year of US$ 33.1 million, arising principally from the net loss for the year and impairment charges booked in equity. IIB's Capital Adequacy Ratio remains strong at 21.0% on 31 December 2017 as compared to the 12.5% minimum ratio required by the Central Bank of Bahrain. The liquid assets of US$ 6.1 million represent 4.3% of total assets at the end of 2017, reflecting cash generated from investing activities of US$ 9.9 million in the year (2016: negative cash used US$ 2.8 million).

The total investment portfolio was valued at US$ 131.9 million at 31 December 2017. During the year, the Bank purchased one investment, two investments reached their maturity dates, and two investments were exited.

The Bank's comprehensive valuation exercise of all investments as at 31 December 2017 was completed with the assistance of expert independent valuation agents and consultants. In line with the AAOIFI accounting standards, net unrealised impairment losses in 2017 of US$ 3.6 million have been reflected in the income statement and directly in equity.

Minimum Equity

The Central Bank of Bahrain introduced in April 2017 a minimum equity requirement on all Bahrain-incorporated banks of US$ 100 million. The Bank's "Equity attributable to shareholders of the Bank" as at year end 2017 was US$ 71.7 million. Independent expert consultants have been engaged to assist the Board during 2018 to develop a strategy to refocus IIB's business model prior to soliciting new equity capital from existing shareholders and other parties.

2018 Outlook

The Bank's priorities during 2018 are to maintain sufficient levels of liquidity and capital adequacy; maintain operational efficiencies; prudent management of the investment portfolio with a focus on exiting non-strategic investments; and preserve shareholder value. Our financial goals include increasing total income with fee income a priority; reducing expenses; and eliminating the operating loss and net loss.

IIB Recommendations – Appropriations and Zakat

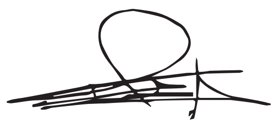
The Board has recommended that no dividend will be paid for the year as the Bank has incurred a net loss. As in the previous years, shareholders will directly pay their respective Zakat on their equity investments in the Bank. Using the Net Asset method of computation, the Zakat payable per share for 2017 is US$ nil (2016: US$ nil).

Board Membership

I would like to thank the outgoing board members: Mr. Abdul Wahab Mohammed Al Wazzan, Dr. Bader Ibrahim Mohammad Bin Saedan, Mr. Ali Haider Suliman Al Haider, Mr. Ali Hashim Sadiq Hashim and Mr. Wasim Saifi for their service and welcome Mr. Khaled Al Fahim and Mr. Eshaq Ebrahim Eshaq who joined as Directors during 2017.

Acknowledgments

On behalf of the Board of Directors and all shareholders, I take this opportunity to extend our sincere thanks and appreciation to His Majesty the King of Bahrain, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince and First Deputy Prime Minister, for their wise leadership and support for the Islamic banking sector. I extend our appreciation to our valued investors for their continued support, together with the Central Bank of Bahrain and Bahrain's Ministry of Industry and Commerce for their advice and guidance. We also thank our Shari'ah Supervisory Board, management team and staff for their dedicated service during the year.



Saeed Abdul Jalil Al Faheem
Chairman

CORPORATE GOVERNANCE

FOR THE YEAR ENDED 2017

THE BOARD OF DIRECTORS IS RESPONSIBLE FOR THE OVERALL GOVERNANCE OF THE BANK THROUGH CONTINUOUS REVIEW AND ADHERENCE TO INTERNATIONAL BEST PRACTICE AND STANDARDS. THE BOARD DETERMINES THE BANK'S STRATEGY, PROVIDES DIRECTION TO THE EXECUTIVE MANAGEMENT, ENSURES THAT THE CONTROL FRAMEWORK IS FUNCTIONING IN ACCORDANCE WITH BEST PRACTICE AND MONITORS EXECUTIVE MANAGEMENT'S PERFORMANCE.

BOARD OF DIRECTORS

FOR THE YEAR ENDED 2017

THE BOARD MEETS REGULARLY THROUGHOUT THE YEAR IN ORDER TO CONTROL STRATEGIC, FINANCIAL, OPERATIONAL, INTERNAL CONTROL AND COMPLIANCE ISSUES.

AS AT 31 DECEMBER 2017, THE BOARD OF DIRECTORS WAS COMPRISED OF 5 DIRECTORS.

BOARD OF DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 2017

HE Mr. Saeed A J Al Faheem
Chairman

Mr. Ahmed Salem Bugshan
Vice Chairman and Chairman of Nomination and Remuneration Committee

Mr. Fareed Bader
Acting Chief Executive Officer and Board Member

Mr. Khaled Abdul Karim Al Fahim
Board Member

DIRECTORS' BIOGRAPHIES - PROFESSIONAL QUALIFICATIONS

HE Mr. Saeed A J Al Faheem

Chairman

Non-Independent and Non-Executive Director

- 30+ years of business experience
- Year of first appointment: 2004
- Honorary Chairman – Al Fahim Group, UAE
- Chairman – Mubarak & Brothers Property & Financial Investment, UAE LLC
- Chairman – German Emirati Joint Council for Industry and Commerce (AHK), UAE
- President of Sh. Khalifa Excellence Award (SKEA) Abu Dhabi, UAE
- Former Vice President – Abu Dhabi Chamber, Abu Dhabi, UAE
- Former Board Member – National Bank of Abu Dhabi, UAE
- Former Board Member – United Arab Bank, UAE

Educational qualifications:

- Bachelor's in Business Administration, Bowling Green University, USA
- Honorary Doctorate in Business Administration, Shendi University, Sudan

Mr. Ahmed Salem Bugshan

Vice Chairman and Chairman of Nomination and Remuneration Committee

Independent Non-Executive Director

- 25+ years of business experience
- Year of first appointment: 2004
- Chief Executive Officer – Saudi Industrial Beverages Co. (SIBCO), KSA
- Chairman – Saudi Steel Profile Mfg. Co. Ltd, KSA
- Chairman – Sidra CapitaL, KSA
- Chairman – Entertainment Innovation Co. Ltd, KSA
- Chairman – Ahmed Salem Bugshan Trading Company, KSA
- Chairman – Saudi Steel Profile Company, KSA
- Chairman – Ahmed Salem Bugshan Steel Trading, KSA
- Director – Savoy Hotel, Sharm El Sheikh, Egypt
- Director – Tirana Tourism Investment Company, Egypt
- Chairman – BMC Al-Mahdar Company, Yemen
- Chairman – Ahmed Salem Bugshan Investment Company, DIFCI, UAE
- Chairman – KAS Holdings Limited, DIFCI, Dubai, UAE
- Chairman – Westville Group (UK)
- Chairman – A.W. Properties (France)

Educational qualifications:

- Bachelor's in Business Administration with major in Economics and Administration, King Abdul Aziz University, Kingdom of Saudi Arabia

Mr. Fareed Bader

Acting Chief Executive Officer and Board Member

Non-Independent Executive Director

- 25+ years of business experience
- Year of first appointment: 2011
- Chairman & Managing Director – Bader Group of Companies, Kingdom of Bahrain
- Chairman – Wafa IEI Middle East Property Investment, Kingdom of Bahrain
- Chairman – Gulf Membrane and Coating Industries, Kingdom of Bahrain
- Chairman – Star Gate Telecommunications, Kingdom of Bahrain
- Chairman – Group 7 Security, Kingdom of Bahrain
- Chairman – Green Product Industry
- Vice Chairman – Universe Environment Bahrain B.S.C., Kingdom of Bahrain
- Member of the Board of Directors – International Investment Bank
- Board Member (President) – Rotary Club Manama, Kingdom of Bahrain
- Board Member – Bahrain Italian Association, Kingdom of Bahrain
- Member / Adviser / Commercial Sector – Bahrain Chamber of Commerce and Industry, Kingdom of Bahrain
- Member of the Board of Directors – Bahrain Contractors Association
- Founding Member – French Chamber of Commerce
- Member of the Board of Directors – Toastmasters FCT
- Member – Bahrain Engineering Society, Kingdom of Bahrain
- Member (Strategic Alliance) – Entrepreneurs Organisation Bahrain Chapter
- Member – American Chamber of Commerce in Bahrain

Educational qualifications:

- BSC, Civil Engineer B, University of Wales, Swansea

Mr. Khaled Abdul Karim Al Fahim

Board Member

Non-Independent and Non-Executive Director

- 15+ years of business experience
- Year of first appointment: 2017
- Board Member – Al Fahim Group
- Chairman – UAE Triathlon Association
- Board Member – Blacklane (Berlin)
- Managing Partner – Quintessentially Abu Dhabi

Educational Qualifications

- Masters in Diplomacy, University of Westminster, London, United Kingdom (UK)
- Bachelor of Science in Business Administration, American Intercontinental University, London, UK

BOARD OF DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 2017

Mr. Eshaq Ebrahim Eshaq
Independent Board Member

Mr. Abdul Wahab Mohammed Al Wazzan (resigned June 2017)
Chairman of Audit & Corporate Governance Committee

Mr. Ali Hashim Sadiq Hashim (resigned July 2017)
Chairman of Executive Committee

Dr. Bader Ibrahim Mohammad Bin Saedan (resigned July 2017)
Member of Executive Committee

Mr. Ali Haider Suliman Al Haider (resigned July 2017)
Member of Audit & Corporate Governance Committee and Member of Nomination & Remuneration Committee

Mr. Wasim Saifi (resigned March 2017)
Member of Audit & Corporate Governance Committee and Member of Nomination & Remuneration Committee

DIRECTORS' BIOGRAPHIES - PROFESSIONAL QUALIFICATIONS (CONTINUED)

Mr. Eshaq Ebrahim Eshaq
Independent Board Member

Independent Non-Executive Director

- 5+ years of business experience
- Year of first appointment: 2017
- Managing Director – Union Gulf Investment Company B.S.C. (c)
- Managing Director – Eshaq Investment Company W.L.L.
- Chairman – African & Eastern (Bahrain) W.L.L.
- Chairman – Bahrain International Travel B.S.C. (c)
- Director – International Investment Bank B.S.C. (c)
- Director – Middle East Traders B.S.C. (c)
- Director – Eshaq Real Estate Investment B.S.C. (c)
- Director (Audit Committee) – Bahrain Airport Services B.S.C. (c)
- Director – BICC MET W.L.L.

Educational qualifications:

- Bachelor of Science in Business Administration with a specialisation in Finance, American University, Washington DC, USA

Mr. Abdul Wahab Mohammed Al Wazzan (resigned June 2017)
Chairman of Audit & Corporate Governance Committee

Independent Non-Executive Director

- Year of first appointment: 2004
- Chairman and Board Member – National International Holding Company, Kuwait
- Second Vice Chairman – Kuwait Chamber of Commerce & Industry, Kuwait
- Former Chairman – Kuwait Real Estate Bank (Kuwait International Bank), Kuwait

Educational qualifications:

- Bachelor's degree in Business Administration, Western Michigan University, USA

Mr. Ali Hashim Sadiq Hashim (resigned July 2017)
Chairman of Executive Committee

Independent Non-Executive Director

- Year of first appointment: 2004
- Vice Chairman & CEO – Hashim Industry, Jeddah, KSA
- Chairman – Gulf Manufacturers, Egypt
- Chairman – Rawasi Al Khaleej, Sharjah, UAE
- Chairman – Tahweel Industries Company, UAE
- Vice Chairman & CEO – Gulf Packaging Systems Company Ltd., KSA
- Vice Chairman & CEO – Prime Plastic Products, KSA
- Vice Chairman & CEO – 3P Stretch Company, KSA
- Vice Chairman & CEO – 3P Pipe Company, KSA
- Partner & Director – Arabian Gulf Manufacturers, KSA
- Partner & Director – Safra Company Ltd., KSA
- Director – Jeddah Graphic, KSA

Educational qualifications:

- Bachelor of Engineering, King Saud University, Kingdom of Saudi Arabia
- Master of Science, Civil Engineering, University of Southern California, USA
- Doctorate of Philosophy, University of Dundee, Scotland

Dr. Bader Ibrahim Mohammad Bin Saedan
(resigned July 2017)
Member of Executive Committee

Independent Non-Executive Director

- Year of first appointment: 2007
- Managing Director – Al Saedan Real Estate Company, KSA
- Director – Saudi Maintenance Made Simple, KSA
- Chairman – Curzon Asset Management, UK
- Director – Tunisian Saudi Real Estate Company, Tunisia
- Director – Mawten Real Estates, KSA
- Director – Gulf Real Estates, KSA
- Director – Kinetic Renewable Energy, USA
- Director – Real Estate Committee in the Chamber of Commerce and Industry, Riyadh, KSA
- Board Member – Saudi Council of Engineers, KSA
- Board Member – General Assembly of the Charitable Society for Orphans, KSA

Mr. Ali Haider Suliman Al Haider (resigned July 2017)
Member of Audit & Corporate Governance Committee and Member of Nomination & Remuneration Committee

Independent Non-Executive Director

- Year of first appointment: 2007
- Vice Chairman – Suliman & Brothers Company W.L.L., Qatar
- Vice Chairman – Salam Bounian, Qatar
- Board Member – Salam International, Qatar
- Board Member – Al Safa Trading Company, Qatar

Educational qualifications:

- Bachelor of Science, Qatar University

Mr. Wasim Saifi (resigned March 2017)
Member of Audit & Corporate Governance Committee and Member of Nomination & Remuneration Committee

Independent Non-Executive Director

- Year of appointment: 2015
- Deputy CEO, Emirates Islamic Bank PJSC
- Board Member – AMMB Holdings Berhad, Malaysia
- Board Member – Ambank Islamic Berhad, Malaysia

BOARD OF DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 2017

Board Terms and Start Date of Current Term
All the current members of the Board of Directors were appointed on 11 May 2017. They hold their office for a term of three years.

Induction, Orientation and Training of New Directors
The Chairman of the Board ensures that each newly appointed director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction process includes:

a. Meetings with senior management;
b. Visits to the Bank's facilities;
c. Presentations regarding strategic plans;
d. Significant financial, accounting and risk management issues;
e. Compliance programmes;
f. Meetings with internal and external auditors and legal counsel (as required); and
g. Familiarisation with Corporate Governance Guidelines

Written Code of Ethics and Business Conduct
The Bank has documented a Code of Conduct, including a code applicable to the Directors.

The aforementioned documents are available with the management and can be provided to the shareholders on request.

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

Bank's ethics dictate that a Board Member should:

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

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

Election System of Directors
The new members are inducted to the Board of Directors through a nomination process on a three-year renewable term. The new members are nominated by the Board, and then later approved by the General Assembly Meeting of the Bank. The Central Bank of Bahrain then approves the nominations for their term.

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

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

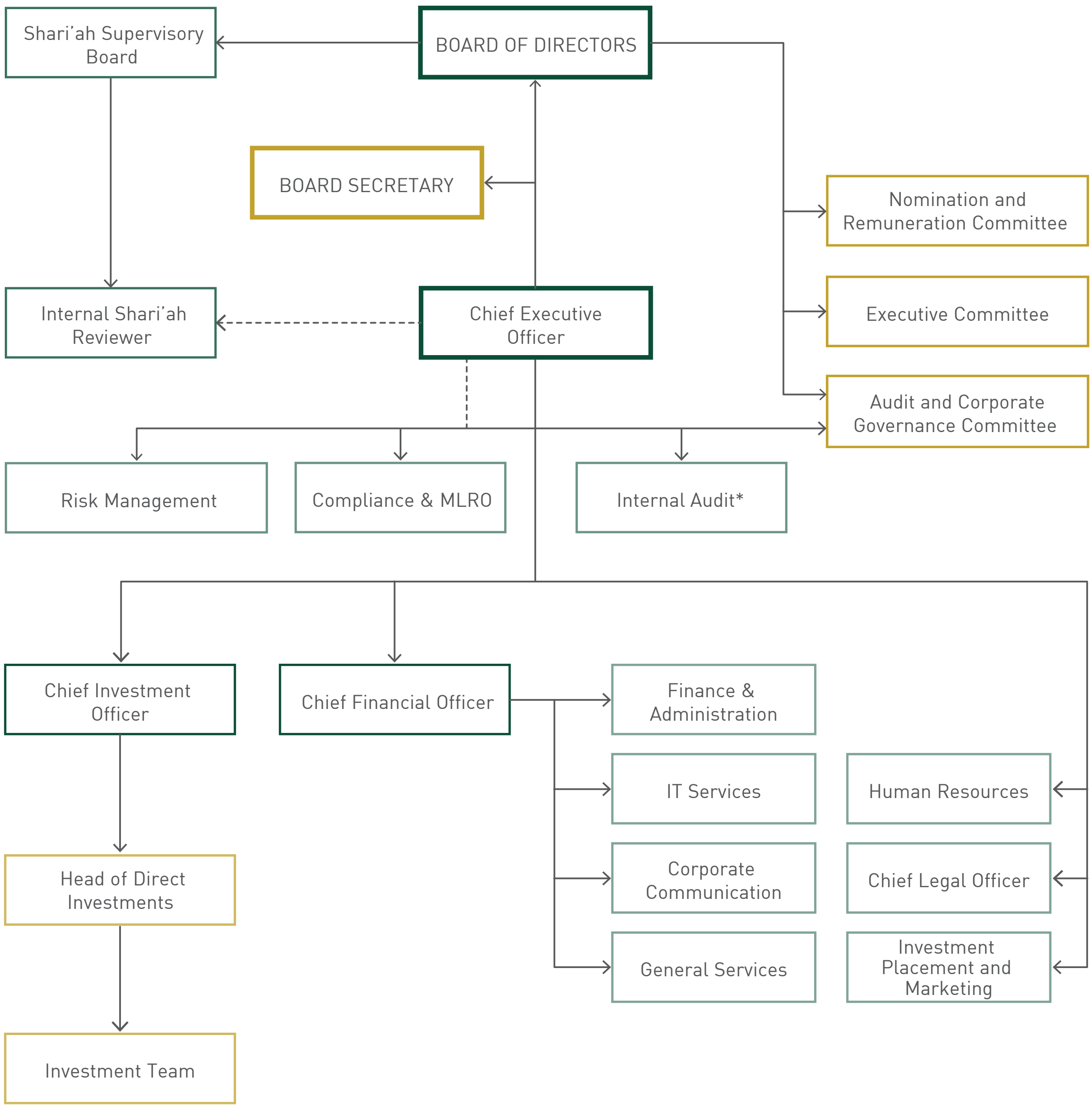
Material Transactions that Require Board Approval
They include all transactions above the threshold determined (as per the discretionary transaction limits) in the nature of non-capital business expenditure, capital expenditure, investment due diligence, investment acquisition and disposal, and murabaha / wakala placement and rollover.

Assessment of Directors
The Board of Directors, its committees and individual directors annually assess their effectiveness and contributions.

Conflict of Interest
Annual Disclaimers of potential conflict of interest have been circulated to the Board of Directors and senior management. Should any conflict of interest arise, the concerned member of the Board of Directors or senior management will declare his interest in the matter under discussion and will absent himself from any vote on the matter.

ORGANISATIONAL STRUCTURE

FOR THE YEAR ENDED 2017



*Currently outsourced

CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2017

The Board of Directors

The Board of Directors are required to meet at least four times a year, either in person, or via teleconference or video conference. The Board met four times during the year and the following table shows the dates and attendance details:

Date & Location of Meeting	Names of Directors Present	Names of Directors Who Joined By Phone / Video Link	Names of Directors Not Present
16-03-2017 Manama, Kingdom of Bahrain	Saeed Al Fahim Ali Al Haider Fareed Bader	Ahmed Bugshan Abdulwahab Al Wazzan Ali Hashim Bader Saedan	
11-05-2017 Manama, Kingdom of Bahrain	Saeed Al Fahim Bader Saedan Ali Al Haider	Abdulwahab Al Wazzan	Ahmed Bugshan Fareed Bader Ali Hashim
18-09-2017 Manama, Kingdom of Bahrain	Saeed Al Fahim Ahmed Bugshan Fareed Bader Khaled Al Faheem Eshaq Ebrahim Eshaq		
09-11-2017 Manama, Kingdom of Bahrain	Saeed Al Fahim Ahmed Bugshan Fareed Bader Khaled Al Faheem Eshaq Ebrahim Eshaq		

Compliance with CBB's High-Level Controls Module requirements

The Bank regularly monitors compliance with the provisions of the High-Level Controls (HC) Module of the Rulebook issued by the Central Bank of Bahrain relating to the roles and responsibilities of the Board of Directors, Board Committees, Disclosure Requirements and Management Strategy. The Comply or Explain Principle Report was revised to include CBB's amendments during 2017 and accordingly, the Bank has complied with the HC module requirements except for the following:

Reference	HC Module Provisions / Terms	Requirements	Complied With? (Yes/No)	Explanations
HC-1.2.9	**R**	**The Islamic bank licensee must have a written appointment agreement with each director which recites the directors' powers, duties, responsibilities and accountabilities and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.**	**No**	**The appointment agreement is being finalised and will be signed as soon as possible.**
HC-1.4.6	G	The chairman of the Board should be an independent director, so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.	No	The Chairman is a Board Member (Non-Executive) of IIB›s controller.
HC-1.4.9	G	The Board should review the independence of each director at least annually in light of interests disclosed by them, and their conduct. Each independent director shall provide the Board with all necessary and updated information for this purpose.	No	In process.
HC-1.8.1	**D**	**The Board must create specialised committees when and as such committees are needed. In addition to the Audit, Remuneration and Nominating Committees and Shari›a Supervisory Board described elsewhere in this Module, these may include an Executive Committee to review and make recommendations to the whole Board on the bank›s actions, or a Risk Committee to identify and minimise specific risks of the Islamic bank licensee›s business.**	**No**	**The Bank is in the process of appointing additional board members, after which new members will be appointed (subject to regulatory approval) to the relevant Board committees.**
HC-1.8.2	G	The Board should establish a corporate governance committee of at least three independent members which should be responsible for developing and recommending changes from time to time in the Islamic bank licensee›s corporate governance policy framework.	No	The Bank is in the process of appointing additional board members, after which new members will be appointed (subject to regulatory approval) to the relevant Board committees.
HC-1.9.1	**R**	**At least annually the Board must conduct an evaluation of its performance and the performance of each committee and each individual director.**	**No**	**In process.**
HC-2.4.1	**R**	**Each approved person must inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to other organisations as they arise. Board members must abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure must include all material facts in the case of a contract or transaction involving the approved person. The approved persons must understand that any approval of a conflicted transaction is effective only if all material facts are known to the authorising persons and the conflicted person did not participate in the decision. In any case, all approved persons must declare in writing all of their other interests in other enterprises or activities (whether as a shareholder of above 5% of the voting capital of a company, a manager, or other form of significant participation) to the Board (or the Nominations or Audit Committees) on an annual basis.**	**No**	**In process.**

CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2017

Compliance with CBB's High-Level Controls Module requirements (Continued)

HC-3.2.1	**R**	**The Board must establish an audit committee of at least three directors of which the majority must be independent including the Chairman.**	**No**	**The Bank is in the process of appointing additional board members, after which new members will be appointed (subject to regulatory approval) to the relevant Board committees.**
HC-3.3.2	**R**	**A majority of the audit committee must have the financial literacy qualifications stated in Appendix A.**	**No**	**No committee**
HC-4.2.1	**R**	**The Board must establish a Nominating Committee of at least three directors which must:**	**No**	**No committee**
HC-4.2.1	**R**	**(a) Identify persons qualified to become members of the Board of directors or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the Islamic bank licensee considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee in accordance with Paragraph HC-3.2.1 above; and**	**-**	**-**
HC-4.2.1	**R**	**(b) Make recommendations to the whole Board of directors including recommendations of candidates for Board membership to be included by the Board of directors on the agenda for the next annual shareholder meeting.**	**-**	**-**
HC-4.2.2	**R**	**The committee must include only independent directors or, alternatively, only non-executive directors of whom a majority must be independent directors and the chairman must be an independent director. This is consistent with international best practice and it recognizes that the Nominating Committee must exercise judgment free from personal career conflicts of interest.**	**No**	**No committee**
HC-5.2.1	**R**	**The Board must establish a remuneration committee of at least three directors which must:**	**No**	**No committee**
HC-6.2.1	**R**	**The Board must appoint senior management whose authority must include management and operation of current activities of the Islamic bank licensee, reporting to and under the direction of the Board. The senior management must include at a minimum:**	**-**	**-**
HC-6.2.1	**R**	**A CEO**	**No**	**The Board is searching for a permanent CEO.**
HC-9.2.2	G	The Board shall set up a Corporate Governance Committee (see also Chapter HC-8). In this case, the Committee shall comprise at least three members to co-ordinate and integrate the implementation of the governance policy framework.	No	The Bank is in the process of appointing additional board members, after which new members will be appointed (subject to regulatory approval) to the relevant Board committees.

Directors' responsibility for Audited, Consolidated, Financial Statements (AFS)

The Board is responsible for the Audited Consolidated Financial Statements (AFS), which accurately disclose the Bank's financial position. The Board has delegated the responsibility of the preparation of accurate financial statements to the Audit and Corporate Governance Committee. In addition, the Bank has instituted appropriate systems and controls, including internal audit, to ensure regular financial reporting, disclosures and monitoring.

Board Committees

The Board has established three sub-committees and a Shari'ah Supervisory Board, comprising expert independent Shari'ah scholars to assist the Board in expeditiously and effectively discharging its responsibilities. This committee structure ensures appropriate oversight by the Board of Directors, while permitting efficient day-to-day management of the Bank. The minimum number of meetings for Board sub-committees is four per annum, except for the Nomination and Remuneration Committee, which has a minimum of two meetings per annum.
The members as at 31 December 2017 and summary terms of reference are as follows:

Executive Committee

Mr. Ali Hashim Sadiq Hashim, Chairman (resigned)

Dr. Bader Ebrahim Al Saedan, Member (resigned)

Mr. Fareed Bader, Member

Assists the Board with the review of the Bank's strategy, annual budget and forecasts, risk policies, management committees' activities and actions. The Executive Committee is required to meet at least four times a year. The Members met three times in 2017 and the following table shows the dates and attendance details:

Board Executive Committee Meetings

Date & Location of Meeting	Names of Directors Present	Names of Directors Who Joined By Phone / Video Link	Names of Directors Not Present
12-02-2017 Manama, Kingdom of Bahrain	Bader Saedan Fareed Bader		Ali Hashim
08-03-2017 Held by Teleconference		Ali Hashim Bader Saedan Fareed Bader	
10-05-2017 Manama, Kingdom of Bahrain	Bader Saedan		Fareed Bader

CORPORATE GOVERNANCE (CONTINUED)

FOR THE YEAR ENDED 2017

Audit & Corporate Governance Committee

Mr. Abdul Wahab Mohammed Al-Wazzan, Chairman (resigned)

Mr. Ali Haider Salman Al Haider, Member (resigned)

Sheikh Abdul Nasser Al Mahmood Member

Mr. Wasim Saifi, Member (resigned)

Assists the Board in reviewing the integrity of the financial statements, compliance with legal and regulatory requirements, the Bank's internal audit function and the independent auditor's qualifications, independence and performance.

The Audit & Corporate Governance Committee is required to meet at least four times a year. The Members met twice in 2017. The following table shows dates and attendance details of the Audit & Corporate Governance Committee meetings during the year.

Board Audit and Corporate Governance Committee Meetings

Date & Location of Meeting	Names of Directors Present	Names of Directors Who Joined By Phone / Video Link	Names of Directors Not Present
12-02-2017 Manama, Kingdom of Bahrain	Ali Al Haider Wasim Saifi Sheikh Abdul Nasser Al Mahmood	Abdulwahab Al Wazzan	
10-05-2017 Manama, Kingdom of Bahrain	Ali Al Haider Sheikh Abdul Nasser Al Mahmood	Abdulwahab Al Wazzan	Mr. Wasim Saifi

Nomination & Remuneration Committee

Mr. Ahmed Salem Bugshan, Chairman

Mr. Ali Haider Sulaiman Al Haider, Member

Assists the Board in assessing candidates and recommending Board and management appointments, as well as to establish and update the remuneration policies and procedures including the level of remuneration paid to executive management.

The Nomination & Remuneration Committee is required to meet at least twice a year. The Members met once in 2017 and the following table shows the dates and attendance details:

Board Nomination and Remuneration Committee Meetings

Date & Location of Meeting	Names of Directors Present	Names of Directors Who Joined By Phone / Video Link	Names of Directors Not Present
15-03-2017		Ahmed Bugshan	
Held by Teleconference		Ali Al Haider	

Independent Shari'ah Supervisory Board

Being an Islamic Bank, IIB's Shari'ah Supervisory Board regularly reviews all investment products and business activities to ensure compliance with Islamic Shari'ah principles, approves the Bank's financial statements and participates with management in the development of suitable investment products and services. IIB's Shari'ah Supervisory Board comprises three prominent Bahraini Islamic scholars who provide the Bank with pragmatic Islamic opinions.

Brief biographies are as follows:

Shaikh Dr. Nizam Yaquby:

Sh. Dr. Nizam Yaquby holds a Doctorate in Islamic studies and a B.A. in Economics from McGill University in Canada. He is also a member of many other local and international Islamic Supervisory Boards, including those of the Central Bank of Bahrain, AAIOFI, Bahrain Islamic Bank, Gulf Finance House, ABC Islamic Bank, HSBC Amanah, Abu Dhabi Islamic Bank, the Islamic Rating Agency, IIFM, Dow Jones Islamic Index and many more. Sh. Dr. Nizam has participated in many conferences worldwide and is a very well-known Islamic scholar with many publications in both Arabic and English to his name.

Shaikh Dr. Osama Mohammed Saad Bahar:

Sh. Dr. Osama 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 Shari'ah from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria. Currently, he is Head of Shari'ah Compliance at First Energy Bank. Also, he is a member of the Shari'ah Board of Global Banking Corporation, Reef (Real Estate Finance), Ithmaar Bank, International Tharawat, Family Bank and Alizz Islamic Bank (Oman).

Shaikh Abdul Nasser Omar Al Mahmood:

In addition to his role with IIB, Sh. Abdul Nasser is a member of the Islamic Supervisory Board of Ebdaa Bank, Eskan Bank, Capinnova Investment Bank and Bahrain Development Bank. Also, he works as an Executive Senior Manager at the Shari'ah audit department at Khaleeji Commercial Bank. He holds a Master's in Business Administration from Gulf University and is working on a thesis on Shari'ah Control and Review in Islamic banks. He also holds a Bachelor's degree in Shari'ah and Islamic Studies from Qatar University and an Advanced Diploma in Islamic Commercial from Bahrain Institute of Banking Finance.

CORPORATE GOVERNANCE (CONTINUED)

FOR THE YEAR ENDED 2017

Investments

The Investment Department is responsible for investment and business development activities including origination, evaluation, structuring and execution of investments and obtaining the required internal and regulatory approvals for real estate, private equity, quoted equity and fixed income investments. The department also manages portfolio companies and exits investments. It develops investments and asset allocation strategies and policies and undertakes due diligence and documentation in conjunction with consultants, partners, accounting firms and law firms.

The Investment Department works closely with the Legal, Risk, Shari'ah and Compliance departments to ensure controls and policies are complied with in the execution and management of investments.

In addition, the department is responsible for investor reporting.

Investment Placement

The department is responsible for advising investors and placing IIB's investment offerings with sophisticated investors. Whilst mandated with the responsibility of maximising investment placement, the department ensures that every investment placed with investors is consistent with the investment objectives and risk tolerance of those investors. Moreover, in order to achieve best practice governance within the framework of the ethical and regulatory requirements of the Central Bank of Bahrain, investments are placed with only those investors who have provided the detailed "Know Your Customer" (KYC) documents and have complied with all legal formalities associated with the placement of each investment.

Support, Administration & Internal Controls

The business departments and executive management of the Bank are supported by a network of well- structured and staffed departments, as follows:

- Financial Control Department, including Treasury, Operations and General Services
- Legal Department
- Compliance and AML Department
- Risk Management Department
- Information Technology Department
- Internal Audit Department
- Human Resources & Administration Department
- Corporate Communications Department

Bank's operations and transactions are subjected to commensurate controls, checks and balances and segregation of duties to ensure that each transaction is originated, approved, executed and accounted for in conformity with, not only Shari'ah standards, but also best practice.

For example, to ensure strong segregation of duties, the Bank's operations are structured to ensure that no employee can originate, execute and account for a transaction. At least two individuals are involved in each transaction, including two signatories on every funds transfer. Each transfer is approved and executed in accordance with "Levels of Authority" approved by the Board of Directors.

Department Heads report to the Chief Executive Officer. There are three exceptions to ensure objectivity and independence from Executive Management: the Head of Risk Management Department, the Head of Internal Audit Department and the Head of Compliance Department report to the Chairman of the Audit & Corporate Governance Committee with an administrative reporting to the Chief Executive Officer. The duties of all staff are clearly defined in detailed job descriptions which are reviewed from time to time to ensure conformity with the current requirements of the business.

Being an Islamic bank, IIB must ensure that all its activities are in compliance with Shari'ah principles. Compliance is achieved through the adoption of policies and procedures that are Shari'ah compliant and through regular discussions with members of the Shari'ah Supervisory Board who review the documentation relating to the Bank's transactions. Consultants perform regular reviews of the Bank's activities and have confirmed that the Bank is Shari'ah compliant.

Compensation & Incentive Structures

The Directors may recommend for themselves an annual retainer fee that is approved at the subsequent Annual General Meeting. Plus reimbursement of their travel and accommodation expenses in connection with attending Board meetings. The members of the Shari'ah Supervisory Board receive a flat fee that the Board of Directors approves annually, and a fee for each meeting attended and reimbursement of their actual travel and accommodation expense. The Remuneration Committee and the Chief Executive Officer agree the annual salaries of all other employees. All staff are eligible to participate in the discretionary annual bonus pool which is awarded on the basis of achievement of both corporate and individual goals.

Other benefits are payable to employees in line with normal industry practice and are approved in aggregate by the Board of Directors.

An allocation for a staff stock option scheme was approved by the General Assembly. The scheme is yet to be implemented.

Executive Management Management Committees

The Board has established five governance committees, namely the Management Committee, Investment Committee, Risk Management Committee, Assets & Liabilities Committee and IT Steering Committee. These committees comprise senior management and heads of departments who are best qualified to make decisions on issues such as funding, asset utilisation, IT, investment purchase / sale, and management of all types of risks, including market, credit, liquidity and operational risks. The members as at 31 December 2017 and the summary terms of reference are as follows:

Management Committees

Executive Management Committee

Mr. Subhi Benkhadra, Chairman (resigned June 2017)

Mr. Fareed Bader, Chairman (appointed June 2017)

Mr. Michael Ross-McCall

Mr. Marcus Scott (resigned November 2017)

Mr. Hemant Bhadra

Ms. Mai Abul

Monitors the execution of the strategic business plan, provides a forum to assimilate viewpoints, and adopt best practices in the management of the Bank and provides guidelines to carry out the day-to-day affairs of the Bank, within the overall approved procedures laid down by the Board.

Management Investment Committee

Mr. Subhi Benkhadra, Chairman (resigned June 2017)

Mr. Fareed Bader, Chairman (appointed June 2017, CBB approval obtained in September 2017)

Mr. Marcus Scott (resigned November 2017)

Mr. Hemant Bhadra

Mr. Murtaza Ghulam

Ms. Reem Al Sairafi

Bushra Al Madhi

Manages the investment portfolio, makes recommendations on proposed investments, exits and approves the final share allocation to investors.

Assets & Liabilities Committee

Mr. Marcus Scott, Chairman (resigned November 2017)

Mr. Hemant Bhadra, Chairman

Mr. Rehan Zulqadar Rashid (appointed February 2017)

Michael Ross-McCall

Ms. Haleema Ebrahim

Manages liquidity, the profit rate risk inherent in the Bank's asset and liability portfolio, and capital adequacy, and ensures the mix of assets and liabilities is appropriate.

Risk Management Committee

Mr. Michael Ross-McCall, Chairman

Mr. Rehan Zulqadar Rashid (appointed February 2017)

Mr. Marcus Scott (resigned November 2017)

Mr. Murtaza Ghulam

Performs a risk review of new business deals to be underwritten by IIB, performs a review of existing business deals underwritten by IIB, and monitors all types of risks faced by IIB including market, credit and operational risks.

IT Steering Committee

Mr. Michael Ross-McCall, Chairman

Mr. Hemant Bhadra

Mr. Said Itani (resigned May 2017)

Mr. Sayed Hussein Mahdi (appointed May 2017)

Mr. Murtaza Ghulam

Mr. Omar Shaheen

Ensures a first class IT and communication service to users, supervises projects to select and implement new systems, provides IT strategic direction, and ensures that a bank-wide disaster recovery plan is prepared and implemented.

CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2017

Chairman and Executive Management

H.E. Saeed Abdul Jalil Al Faheem, Chairman

H.E. Saeed Al Faheem is the Chairman of Al Fahim Group, one of the most successful groups of companies in the UAE, operating chiefly in the automotive dealership, hospitality and hotel, oil and gas, real estate and insurance sectors. He obtained a degree in Business Administration from Bowling Green University, USA and Shendi University in Sudan has awarded him an Honorary Doctorate in Business Administration in appreciation of his distinguished contribution to Sudan's rural development. He holds a number of company directorships.

Mr. Fareed Bader, Acting Chief Executive Officer and Board Member

Serving temporarily as Acting Chief Executive Officer until a permanent appointment is made by the Board, Mr. Bader is a prominent Bahrain-based businessman with interests in a range of industries. He is Chairman & Managing Director of the Bader Group of Companies and also serves as Chairman of a number of other firms, including Angivest ventures WLL, Gulf Membrane and Coating Industries, Star Gate Telecommunications, Green Tech Middle East, and Green Product Industry. Mr. Bader is a member and Commercial Sector Advisor to the Bahrain Chamber of Commerce and Industry. He is a Past President and Board Member of the Rotary Club of Manama, and Past President of Toastmasters FTC. He was a founding member of the French Chamber of Commerce in Bahrain and is a member of several business fraternities including Bahrain Engineering Society and Bahrain Contractor Association, a Board Member of Entrepreneurs Organisation as a Finance Chair of the Bahrain Chapter, and a Board Member of American Chamber of Commerce in Bahrain. Mr. Bader holds a BSC in Civil Engineering from the University of Wales, Swansea, UK.

Mr. Subhi Benkhadra, Chief Executive Officer (resigned June 2017)

Mr. Benkhadra is an experienced CEO with particular competence in conventional and Shari'ah compliant investment banking, real estate development and turnaround situations across various sectors.

He has previously led financial institutions in the UK and Middle East and has an exceptional understanding of Arab and Islamic markets. Starting his career at the United Bank of Kuwait PLC in 1987, he more recently held the position of Chief Executive Officer at Investment Trust Limited (UK), Esterad Investment Company BSC (Bahrain), European Islamic Investment Bank (UK) and Baniyas Investment and Development Co LLC (UAE). He has also served on the Boards of Abu Dhabi Islamic Bank Egypt, Accelerator Technology Co (Jordan) and Brighton College Schools (UAE).

Mr. Benkhadra graduated from the University of Bath in 1987 with a BSc in Environmental Engineering and holds an MBA in Finance from City University Business School. He is also an ex-member of the Board of Directors of the Arab Bankers' Association in London.

Marcus Scott, Chief Investment Officer (resigned October 2017)

Mr. Scott is the Chief Investment Officer and heads the Investment Department. He has 25 years' experience in banking and investment management. Mr. Scott began his career in London working with global investment banks including Salomon Brothers, Donaldson Lufkin & Jenrette, and Credit Suisse First Boston. He relocated to Bahrain in 2009 while holding the position of Head of Private Equity at European Islamic Investment Bank. From 2011 to 2014 he held the position of Chief Investment Officer at Baniyas Investment Company, based in the UAE, before returning to Bahrain in 2015 to take up the role at IIB. Mr. Scott is a board member of Legacy Hill Resources, a London based mining investment and operating company.

He holds an MPhil in Management Studies from the University of Oxford and a Bachelor of Commerce from the University of Auckland.

Michael Ross-McCall, Chief Financial Officer

Mr. Ross-McCall heads the Finance and Administration Department with additional responsibility for Treasury, Operations, Human Resources, General Services and Corporate Communications. He holds a Law Degree from Edinburgh University and is a member of the Institute of Chartered Accountants of Scotland. Following several years of employment with Ernst & Young and Price Waterhouse, he worked in the banking sector for more than 20 years, holding senior positions at Wells Fargo, Bank of Bahrain and Kuwait (BBK) and Bahraini Saudi Bank.

Mai Abul, Chief Legal Officer and Board Secretary

Ms. Abul holds both Bachelor and Master's degrees in Business Law from Monash University, Melbourne, Australia. She is a transactional lawyer specialising in Islamic banking and finance projects and investments. Ms. Abul previously served as board secretary of Bahrain Mumtalakat Holding Company B.S.C. (c).

Other Senior Officers

Hemant Bhadra, Head of Direct Investment

Mr. Bhadra is the Head of Direct Investment, responsible for managing the bank's own investment portfolio. He has over 20 years of in-depth experience across the complete investment life cycle, from sourcing, evaluating, negotiating, structuring (including mezzanine structures) and executing deals, to post investment monitoring and exits. Mr. Bhadra has managed investments in the MENA region and other emerging markets across a wide range of sectors, including retail, media, infrastructure, real estate, contracting, and manufacturing.

He is a CFA holder from the CFA Institute, USA, and a member of the Institute of Chartered Accountants of India (ICAI).

Mr. Muzaffar Hussain Naveed Allana, Head of Internal Audit (resigned January 2017)

Mr. Allana heads the Internal Audit function at IIB and is responsible for providing independent assurance to the Board on the effectiveness of the internal controls framework implemented within the Bank. He has more than 12 years of auditing experience of the Banking industry.

Prior to joining IIB, Mr. Allana worked with EY & KPMG, 'Big Four' global auditing firms, in Assurance and Advisory departments and also worked with the Central Bank of Bahrain (CBB) in the Islamic Supervision Directorate. He is a member of the Institute of Chartered Accountants in England and Wales - ICAEW, UK, and a fellow member of the Association of Chartered Certified Accountants - ACCA, UK. He also holds a Bachelor's degree from Oxford Brookes University, UK.

Mr. Augustine Peter, Director, Finance

Mr. Peter holds the position of Director, Finance, with responsibility for the financial management of the group, and for maintaining the financial records and preparation of financial statements of the Bank, as well as its subsidiaries and special purpose vehicles. He holds a Bachelor's degree from the University of Calicut, India, and is a member of the Institute of Chartered Accountants of India. Prior to joining the Bank in 2007, he had extensive experience in the area of Financial Audit, Financial Management, and MIS Management, both in India as well as in Bahrain. He has more than 20 years of experience that covers banks, investment companies, audit firms, and stock exchanges.

Rehan Zulqadar Rashid, Head of Risk Management & Deputy MLRO (appointed February 2017)

Mr. Rashid has over 18 years of experience in the field of risk management, compliance, and internal & external audits across Big 4 firms and financial institutions within the Middle East and Asia. He holds a Bachelor's of Commerce degree from the University of Punjab, Pakistan and is a certified Operational Risk Manager, an Associate Professional Risk Manager and a Certified Anti-Money Laundering Specialist. His previous work experience includes working with Ibdar Bank, Ernst & Young & PricewaterhouseCoopers.

Sayed Hussein Alawi, IT Manager (appointed May 2017)

With more than 13 years of experience in the field, Mr. Alawi holds multi processional IT certifications. He has held several network administration positions in different companies in Bahrain. He was the network administrator of the bank until he assumed the responsibility of the IT Department in 2017 after the retirement of the previous Head of IT.

Said Itani, Head of IT (resigned May 2017)

Mr. Itani has a diploma in systems programming, analysis, and design. He has more than 35 years' experience in the IT sector, latterly in Saudi Arabia and Bahrain. From 1995 to 2002 he was IT Division Manager at Bank Al-Jazira in Jeddah and from 2002 to 2006 he was Head of IT, Security and Property at UBS-Noriba Bank in Bahrain.

Sawsan Al-Ansari, Head of Human Resources and Administration

Sawsan Al-Ansari brings to IIB more than three decades of experience in the areas of information technology, financial control, and human resources. Having previously worked at United Gulf Bank and American Express Bank, she joined IIB in 2009.

Arwa Al Sharaf, Head of Compliance and MLRO

Ms. Al Sharaf holds a Bachelor's of Science degree in Banking and Finance from University of Bahrain and an International Diploma in Compliance from the International Compliance Association, Manchester, UK. Ms. Al Sharaf joined the Bank in April 2016 as the Head of Compliance. She is responsible for developing, implementing and administering the Bank's Compliance Management Program. She is also IIB's Money Laundering Reporting Officer. Ms. Al Sharaf has over 11 years of experience in Banking.

Prior to working with IIB, Ms. Al Sharaf was the Head of Compliance, Deputy MLRO and Board Secretary at Seera Investment Bank, and before that she worked in the Financial Controls department where she was responsible for MIS and CBB reporting. Ms. Al Sharaf commenced her career at Citibank Bahrain in the Treasury Operations department where she gained broad experience in the banking operations and in a wide range of Islamic and conventional banking products.

CORPORATE GOVERNANCE (CONTINUED)

FOR THE YEAR ENDED 2017

Charitable Contributions

No contributions and donations were made during 2017.

Non-Shari'ah Income

Any income derived from any investment or business that does not conform to Shari'ah principles is considered to be Non-Shari'ah income arising in the course of the business. It is donated through charitable organisations.

For the year 2017, there was no Non-Shari'ah income for the Bank.

Review of Internal Control Process and Procedures

The Board is fully aware that the system of internal control cannot eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an on-going process of managing significant risks faced by the Bank and reviewing the system of internal control for the year under review. The key elements are described below:

- Formal organisation structure that clearly defines the framework for the line of reporting and hierarchy of authority
- Policies and Procedures Manual on key activities that lay down the objective, scope, policies and operating procedures for the Bank, which are subject to regular review and improvement
- Regular internal audit visits to departments within the Bank to ensure compliance with the Bank's Policies and Procedures, and to review effectiveness of internal control systems
- Clearly defined authorisation limits at appropriate levels are set out for controlling and approving capital expenditure and expenses
- Regular Senior Management meetings are held to discuss and resolve major issues arising from business operations
- Quarterly meetings for the Audit & Corporate Governance Committee and the Board are held to discuss internal audit reports, periodic financial statements and issues that warrant Audit and Corporate Governance Committee and Board attention; in respect of risk management framework, a Risk Management Committee was established, to evaluate, monitor and manage the risks that may impede the achievements of the Bank's business objectives

Minor internal control weaknesses were identified during the year of review. None of the weaknesses have resulted in any material losses, contingencies or uncertainties.

Nature and approval process of related party transactions

The balance with related parties mainly comprises investments in associates. Associates are the companies where the Bank holds 20% or more of the share capital by way of direct investment or investment through Special Purpose Vehicles in its ordinary course of business.

Such investments also go through the same approval processes as required for all investments of the Bank.

Transactions with related parties in 2017 (included in Note 20 of the consolidated financial statements) mainly comprise of share of loss from associates and remuneration paid to the Shari'ah Supervisory Board.

Changes in Organisation Structure

There were no changes to the Organisation Structure of the Bank during the year.

Departmental Structure

EXECUTIVE MANAGEMENT	
Fareed Bader	Acting Chief Executive Officer and Board Member
Eman Shakib	PA to the CEO
INVESTMENT	
Hemant Bhadra	Head of Direct Investments
Murtaza Ghulam	Principal
Marieta Cano	Executive Secretary
Ruby Castro	Executive Secretary
INVESTMENT PLACEMENT & INVESTOR RELATIONS	
Bashar Al-Shaikh	Principal
Omar Shaheen	Principal, Investor Relations
Bushra Ali Al-Madhi	Officer, Investor Relations
FINANCE	
Michael Ross-McCall	Chief Financial Officer (CFO)
Augustine Peter	Director
Haleema Ebrahim	Associate – Treasury
Hassan Abbas	Associate – Finance
INTERNAL AUDIT (outsourced)	
RISK MANAGEMENT	
Rehan Zulqadar Rashid	Head of Risk Management and Deputy MLRO
Maryam Al Haji	Officer
COMPLIANCE	
Arwa Al Sharaf	Head of Compliance and MLRO
Khatoon Ahmed	Officer, Compliance
LEGAL	
Mai Abdulaziz Abul	Chief Legal Officer and Board Secretary
INFORMATION TECHNOLOGY	
Sayed Hussein Alawi	IT Manager
Ali Al Najjar	Officer
INTERNAL SHARI'AH REVIEW	
Mahmood Al-Qassab	Head of Shari'ah Review
Sayed Mahmood Alawi	Administration Officer
HUMAN RESOURCE & ADMINISTRATION	
Sawsan Al-Ansari	Head of HR and Administration
Hussain Ali Jassim	General Services
Maryam Al-Madeh	Receptionist & General Secretary

CORPORATE GOVERNANCE (CONTINUED)

FOR THE YEAR ENDED 2017

Ownership Details of the Bank

The following table shows the distribution of ownership of the Bank by nationalities as on the reporting date.

Country	Number of shareholders	Number of shares	Percentage
Kingdom of Bahrain	7	2,406,158	2.19%
State of Kuwait	39	16,452,201	14.96%
State of Qatar	11	6,931,862	6.30%
Kingdom of Saudi Arabia	34	28,882,213	26.26%
United Arab Emirates	19	52,323,363	47.57%
Total	110	106,995,797	97.28%
Treasury shares	1	3,000,000	2.72%
Overall Total	111	109,995,797	100.00%

The following table shows the distribution of ownership by directors and senior managers of the bank as on the reporting date.

Name	Position	Number of shares	Percentage
Saeed A J Al Faheem	Chairman	26,374,704	23.98%
Ahmed Salem Bugshan	Board Member	3,908,404	3.55%
Fareed Bader	Board Member	350,000	0.32%
Eshaq Ebrahim Eshaq (appointed in 2017)	Board Member	0	0%
Khaled Abdul Karim Al Fahim (appointed in 2017)	Board Member	0	0%

The above table excludes shares held by certain board members who resigned during the year.

The following table shows the distribution of ownership by size of shareholding in the Bank as on the reporting date.

Shareholding size	Number of shareholders	Number of shares	Percentage
Above 5% ownership	1	26,374,704	23.98%
Less than 5% ownership	110	83,621,093	76.02%
Total	111	109,995,797	100.00%

There was no trading in the Bank's shares by directors and senior managers of the Bank during the year. There are no shareholdings in the Bank by the Bahrain Government or any other Governments.

Remuneration of Board Members

Except for sitting fees for attending meetings, no remuneration was paid to Board members for the year 2017.

Remuneration of Shari'ah Supervisory Board Members

The remuneration paid to Shariah Supervisory Board Members for the year 2017 was US$ 112,020 (2016: US$ 114,045).

Fees paid to External Auditors

Information relating to the fee paid to external auditors for audit and non-audit services including quarterly review of prudential returns and public disclosures reviews are maintained at the Bank. This information is available to shareholders on request.

Fines paid to regulator

During the year 2017, the Bank paid total penalties of BHD 2,000, which were imposed by the CBB due to delays in compliance with regulatory publication / disclosure requirements.

Communications Strategy

A summary of the Bank's quarterly and annual financial statements is published in local and regional newspapers. The Bank maintains a website, www.iib-bahrain.com which contains the last five years of annual financial data as at 31 December, together with summary financial data covering the interim quarterly financial statements.

It also contains a profile of the Bank, details of the principal products and services, profiles of the senior managers and regular press releases concerning investment transactions and other developments.

Inquiries are made to the relevant departments by email to: info@iib-bahrain.com

Client Enquiries and Complaints

The Bank has assigned a designated team in Investor Relations to maintain a log of client queries / complaints. A brief of client inquiry / complaint is prepared and forwarded to the concerned Investment Manager, who prepares a draft response. It is then forwarded to the Chief Investment Officer who approves the response, which is then forwarded to the client. An entry is made in the log of queries / complaints to record the Bank's response.

Additional Governance Controls

The Board has approved a number of policies, which are communicated to management and all staff. These cover subjects including risk management, anti-money laundering, ethical behaviours, personal conduct, financial control, human resources and business continuity.

Corporate governance is also supported by the ongoing reviews performed by the Internal Audit Department and the External Auditors. The reviews confirm that the policies and internal control procedures conform to best practice and are being fully complied with by management and staff.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS

FOR THE YEAR ENDED 2017

FAREED BADER
Acting Chief Executive Officer

MANAGEMENT ACHIEVED TWO EXITS DURING THE YEAR. THE HOLDING IN RASMALA PLC IN THE UK BY OUR INVESTMENT VEHICLE IIB EUROPEAN INVESTMENT COMPANY LIMITED WAS SOLD TO RASMALA UNDER ITS BUY-BACK OFFER. THE BANK'S HOLDING OF THE 10-YEAR GOVERNMENT OF BAHRAIN SUKUK MATURING IN 2025 WAS ALSO SOLD.

IIB'S BALANCE SHEET HAS NO DEBT AND TOTAL LIQUID ASSETS AT YEAR END 2017 WERE US$ 6.1 MILLION, REPRESENTING 4.3% OF TOTAL ASSETS.

Following encouraging indications in 2016 of future improved profitability, the Bank in the first quarter of 2017 unexpectedly suffered the loss of its equity investment in PropTex, the real estate portfolio located in the USA. Due to complications in refinancing the mezzanine debt in advance of the maturity date, the mezzanine debt provider auctioned the properties that resulted in our requirement to book a 100% impairment charge against the US$ 25.7 million investment. Our lawyers are actively pursuing a claim for damages through the US courts, however the amount and timing of any recovery are unknown at present.

The other significant exposures in the portfolio experienced mixed performances in 2017. The bank's investment in Sarajevo City Center in Bosnia increased in value by US$ 5.9 million due to a combination of foreign currency appreciation and valuation enhancement as the project of integrated shopping mall, office tower and hotel nears completion. The shopping mall enjoys a circa 91% occupancy rate. The office tower is completed with 3 out of 15 floors leased while the hotel is expected to be completed in the second half of 2018, having signed an operating agreement with Accor for the Swissotel brand.

IIB's investment in an Airbus A330-300 aircraft leased to Finnair in Europe continues to perform well and generates a cash yield of just under 10% per annum. However, impairment charges of US$ 6.2 million were taken against a private equity investment and a real estate investment, both located in Saudi Arabia.

The net loss of US$ 32.3 million includes significant non-cash and non-recurring expenses of US$ 28.2 million. Despite the loss for the year, IIB's balance sheet has no debt and total liquid assets at year end 2017 were US$ 6.1 million, representing 4.3% of total assets.

Management achieved two exits during the year. The holding in Rasmala plc in the UK by our investment vehicle IIB European Investment Company Limited was sold to Rasmala under its buy-back offer. The Bank's holding of the 10-year Government of Bahrain sukuk maturing in 2025 was also sold. Other exits are actively being pursued in 2018.

The halt to all new business imposed by the Central Bank of Bahrain during 2016 pending the satisfactory resolution of all issues reported in its Examination Report has been lifted, but no new equity investments were executed during 2017. Our investor relations / asset placement team has made regular trips within the GCC to meet new and existing investors / shareholders in order to explain IIB's current performance and to ascertain their future investment preferences.

On the operational side, IIB has invested in replacement servers at its IT centres in the head office in Seef and its disaster recovery centre at Hoora, both in Bahrain. These enhancements are expected to provide the Bank with a robust IT platform for many years ahead. The internal audit function was successfully outsourced during 2017 to a leading consultancy firm located in Bahrain that has generated both cost savings and an enhanced comprehensive audit.

We welcome the additions of Mr. Khalid Al Fahim and Mr. Eshaq Eshaq to the Board of Directors during 2017 and look forward to their valuable contributions. The Bank's focus for 2018 is to manage the investment portfolio, generate exits, enhance liquidity and protect shareholder value. We eagerly await the recommendations of the expert consultants recently appointed to review IIB's business model that will assist the Board and management to chart the best course going forward.

Fareed Bader
Acting Chief Executive Officer

FINANCIAL REVIEW
FOR THE YEAR ENDED 2017

Overview

The Bank has registered a loss of US$ 32.3 million in 2017, compared to a loss of US$ 20.9 million in the previous year. The losses include non-cash net fair value provisions and impairment charges of US$ 1.9 million (2016: US$ 16.0 million) plus a realised investment impairment charge of US$ 25.7 million (2016: nil), which represent 85.4% of the 2017 loss. Other non-recurring expenses in 2017 were US$ 0.5 million, representing 1.5% of the loss.

Total assets at year-end 2017 aggregated to US$ 141.4 million and included cash and cash equivalents of US$ 6.1 million. Total owners' equity at 31 December 2017 was US$ 78.2 million. Assets under management at the end of 2017 amounted to US$ 131.7 million. The capital adequacy ratio at 31 December 2017 was 21.0% versus the minimum permitted by the Central Bank of Bahrain of 12.5%.

Consolidated Statement of Income

Income

The Bank's total income for 2017 was US$ 2.6 million compared with negative US$ 4.4 million in 2016. The net gain within total income from fair valuing investment securities "through profit and loss" was US$ 1.0 million, compared to a net loss of US$ 7.4 million in 2016. A net loss was reflected in 2017 on the exit from investment securities located in United Kingdom and Bahrain of US$ 0.2 million (2016: net gains US$ 0.9 million). Profit of US$ 0.2 million emanated from an investment in Bahrain government sukuks. Net income of US$ 1.3 million was derived from assets acquired for leasing (aircraft purchased and leased). Investment banking fees in 2017 were nil (2016: US$ 0.1 million) as no structuring and placement fees were earned in the year. Income from placements with financial institutions of US$ 49 thousand reduced from the income derived in 2016 of US$ 179 thousand as a result of lower average cash balances. Rental income from investment in real estate of US$ 0.3 million was earned from a residential tower located in the Kingdom of Bahrain.

Expenses

Total expenses in 2017 aggregated to US$ 6.4 million, a decrease of US$ 1.4 million (17.9%) compared to US$ 7.8 million in 2016. Finance expenses were US$ 0.4 million (2016: US$ 1.5 million), which related to a US$ 30.0 million wakala deposit which was pre-paid in 2017. Non-recurring expenses of US$ 0.5 million were incurred, primarily relating to legal and consultancy fees. Excluding finance expenses, staff costs accounted for 55.2% of the total expenses and asset management costs (mainly legal fees, consultants' fees and travel expenses) accounted for a further 22.2%, with the remaining 22.6% being attributed to occupancy, depreciation, (non-deal) legal & professional fees, and general operating costs.

Impairment Allowances

IIB booked unrealised impairment net charges on investments and receivables in 2017 of US$ 2.9 million (2016: US$ 8.7 million). The impairments are related to several investments with a wide geographical and industry mix, from a combination of foreign currency changes, changes in listed prices and changes in valuations received from expert real estate valuers and from in-house valuation models.

A realized impairment allowance was recorded in 2017 of US$ 25.7 million (2016: nil) against the Bank's total exposure to PropTex, a multifamily real estate residential portfolio located in the USA.

In addition, fair value net losses of US$ 0.7 million were reflected directly in equity (2016: net loss of US$ 2.0 million) in accordance with the applicable accounting standards. Therefore, the combined net unrealised fair value losses and impairment charges from fair valuing investments at year end 2017 was US$ 28.3 million, compared to net losses of US$ 18.1 million in 2016.

Consolidated Statement of Financial Position

Assets

Cash and cash equivalents at year-end 2017 were US$ 6.1 million and represented 4.3% of total assets. The total amount includes cash, balances with banks and due from financial institutions comprising commodity wakala placements with financially-sound banks located in the GCC with a maximum maturity period of 90 days. With the addition of quoted investment securities valued at US$ 3.6 million, liquid and semi-liquid assets aggregated to US$ 9.7 million or 6.9% of total assets.

Total investments at 2017 year end decreased by US$ 52.4 million since 31 December 2016 to US$ 131.9 million. The net reduction reflected net sale of investment securities of US$ 9.9 million, depreciation of US$ 3.5 million on assets acquired for leasing, net asset sales of US$ 11.3 million in a subsidiary, the realized impairment allowance of US$ 25.1 million against the PropTex musharaka financing and other net fair value plus impairment charges of US$ 2.6 million.

The Bank concluded one investment purchase in 2017 costing US$ 5.6 million comprising the participation in a 6-month Government of Bahrain sukuk. There was one exit and one partial exit from investments during 2017: a 10-year Bahrain government sukuk and a banking asset located in the United Kingdom. Including the redemption proceeds of the 6-month sukuk, the total proceeds received were US$ 15.5 million.

Total assets under management, computed on the year end value of the total equity provided by IIB and its investors, reduced from US$ 181.2 million at year end 2016 to US$ 131.7 million, mainly due to investment exits, an investment realized impairment charge and net unrealised fair value / impairment charges on several investments from lower asset valuations.

Other assets totaling US$ 3.4 million comprised receivables of subsidiary companies of US$ 3.0 million considered to be fully recoverable, prepaid expenses, net equipment and sundry advances / deposits.

Liabilities and equity

Financing liabilities at year end 2017 of US$ 3.8 million comprised an external bank financing to a subsidiary company. During 2017, the remaining US$ 10.2 million of the general financing wakala deposit was prepaid.

Liabilities related to assets acquired for leasing of US$ 56.9 million comprised funds provided by two financial institutions that financed most of the cost of an ijara aircraft for lease-back to the airline. Repayments of US$ 3.9 million made in 2017 were fully covered by the rental income receivable.

Other liabilities of US$ 2.5 million comprised payables by subsidiary companies of US$ 1.2 million, accrued expenses and payables to suppliers.

Total equity reduced from US$ 111.4 million to US$ 78.2 million at 2017 year end. The change in 2017 mainly comprised the net loss for the year of US$ 32.3 million and the net loss from unrealised movements in fair values on investments amounting to US$ 0.7 million booked directly in equity.

REMUNERATION DISCLOSURES

FOR THE YEAR ENDED 2017

The Bank has a transparent, structured and comprehensive Remuneration Policy that covers all types of compensation and benefits, including the variable remuneration provided to employees at all levels of the Bank.

The Bank's Remuneration Policy is in line with the requirements of the Central Bank of Bahrain ("CBB"). The revised policy framework was approved by the Board of Directors and the Shareholders and the policy came into effect as of 27th April 2016.

The key features and objectives of the remuneration framework are summarized below.

Remuneration Policy

The fundamental principles underlying the Remuneration Policy are:

a. Remuneration offered by the Bank shall reflect the Bank's objective of attracting and retaining the best available talent in the industry. Remuneration will be at a level which will commensurate with other Banks of similar activity in Bahrain, and will allow for changes in the cost of living index;

b. The Nomination and Remuneration Committee of the Board (NRC) shall actively oversee the remuneration system's design and operation for approved persons and / or material risk-takers. The CEO and senior management shall not primarily control the remuneration system;

c. The compensation package shall comprise a fixed component consisting of basic salary and allowances and discretionary variable pay or bonus. The compensation package offered to employees is based on the job content and complexity. Whilst the remuneration package for all approved persons and material risk takers shall be approved by the NRC, the remuneration packages for other employees are required to be approved by the CEO based on the overall remuneration policy;

d. In a very limited number of cases, a higher salary may be offered to prospective employees who are especially well qualified or experienced for the position, or may be difficult to source. Careful consideration will be given to the effect of such an offer on existing salary levels. Such offers shall require approval as per the authority matrix and subject to the approval of the NRC;

e. Variable pay will be determined based on achievement of targets at the Bank level, business unit level and individual level;

f. Variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal:

    1. Performance metrics for applicable business units are risk-adjusted where appropriate; and

    2. Individual award determinations include consideration of adherence to compliance-related goals.

g. The remuneration package of employees in Control and Support functions (risk management, internal audit, operations, financial controls, internal Shari'ah review / audit, compliance and AML) are designed in such a way that they can function independently of the business units they support. Independence from the business for these employees is assured through:

    1. Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviors while remaining competitive with the market, ie. their total remuneration will be weighted more in favor of salary;

    2. Remuneration decisions are based on their respective functions and not the business units they support;

    3. Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function;

    4. Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments; and

    5. Both qualitative and quantitative measures will be used to evaluate an individual's performance within these functions.

h. The Bank does not provide for any form of severance pay, other than as required by the Labour Law for the Private Sector Law No.36 of 2012 of the Kingdom of Bahrain, to its employees. Under exceptional circumstances and subject to NRC approval, the Bank might offer sign on bonus or minimum variable pay for any new recruit limited to first year of employment only;

i. The Bank would not allow any of its employees, identified as approved persons as per CBB guidelines, to take any benefits from any projects or investments which are managed by the Bank or promoted to its customers or potential customers except for Board-related remuneration linked to their fiduciary duties to the investors of the project / investment including those appointed as members of the board of special purpose vehicles or other operating companies set up by the Bank for projects or investments;

j. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits;

k. If a senior manager is also a director, his remuneration as a senior manager must take into account compensation received in his capacity as a director; and

l. The Bank prohibits employees to use personal hedging strategies or remuneration - and liability-related insurance-to undermine the risk alignment effects embedded in their remuneration arrangements. The Bank requires all employees to sign adherence to the Bank's code of ethics which includes the commitment of employees not to use personal hedging strategies or remuneration- and liability-related insurance.

NRC role and responsibilities

The Board of Directors ("The Board") of the International Investment Bank B.S.C. (c) ("IIB" or "the Bank") has formed a Nomination & Remuneration Committee ("NRC" or the "Committee"). The Committee's roles and responsibilities includes the following with respect to the remuneration policy of the Bank:

a) Review the Bank's remuneration policies for the approved persons and material risk-takers, which must be approved by the shareholders and be consistent with the corporate values and strategy of the Bank;

b) Approve the remuneration policy and amounts for each approved person and material risk-taker, as well as the total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;

c) Approve, monitor and review the remuneration system to ensure the system operates as intended;

d) Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law, 2001;

e) The remuneration committee shall carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. It must demonstrate that its decisions are consistent with an assessment of the Bank's financial condition and future prospects;

f) Design all the elements of remuneration including fixed salary, allowances, benefits and variable pay scheme for all levels of employees in the Bank. In designing the Remuneration Policy, the NRC shall consider the Core Remuneration Policy of the Bank, the business strategy of the Bank, the regulatory pronouncements of the Central Bank of Bahrain and the Labour Law for the Private Sector Law No.36 of 2012 of the Kingdom of Bahrain and inputs from the CEO and Senior Management. However the CEO and Senior Management shall not have any decision-making authority with respect to the Remuneration Policy;

g) Approve the remuneration policy and amounts for each approved person and material risk-taker as well as the total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;

h) Approve targets and associated risk parameters, and variable pay for achieving the set target for each financial year;

i) Approve total variable remuneration to be distributed, considering the total remuneration including salaries, fees, expenses, bonuses and other employee benefits at the end of the financial year based on the evaluation of actual performance as against the target for the financial year;

j) Approve, monitor and review the remuneration system on a regular basis to ensure the system operates as intended;

k) Undertake stress testing of the variable pay on a periodic basis to ensure that the variable pay scheme does not affect the Bank's solvency and risk profile, and its long term objectives and business goals; and

l) Undertake back testing to adjust for ex-post risk adjustments to the variable pay paid in earlier years.

The NRC comprises the following members:

NRC Member Name	Appointment date	Resigning date	Number of meetings attended	
			2017	2016
Mr. Ahmed Bugshan	27 March 2014		1	1
Mr. Ali Al Haider	23 February 2016	04 July 2017	1	2
Mr. Wasim Saifi	23 February 2016	08 March 2017	-	2

The aggregate remuneration paid to the NRC members during the year in the form of sitting fees amounted to USD 2,000 (2016: USD 5,000).

REMUNERATION DISCLOSURES (CONTINUED)

FOR THE YEAR ENDED 2017

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 and 224 of the Bahrain Commercial Companies Law, 2001 (as amended). Moreover, the articles of association regarding remuneration of the Board of Directors shall be in line with the Rules outlined in the HC Module of the CBB rulebook applicable to the Bank.

Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

The process of determining the Board remuneration as per article 188 is as follows:

Step 1 –	Compute the results for the year.
Step 2 –	Determine whether profits were achieved and dividends paid to shareholders.
Step 3 –	If profits were made deduct transfer to the statutory reserve, if any, from Net Profit.
Step 4 –	Deduct notional dividend at 5% of Net Profit or actual dividend whichever is higher.
Step 5 –	Base for Board Remuneration computation.
Step 6 –	Board Remuneration (Up to 10% of above).
Step 7 –	Make disclosures in the annual report as required by regulatory requirements.
Step 3A –	If the Bank does not make profits or pay dividends to the shareholders, the Board of Director's remuneration has to be first approved by the shareholders in the Annual General Assembly Meeting and subsequently by the Ministry of Industry, Commerce and Tourism.

No Board Remuneration has been accrued or paid for 2017 as the Bank had incurred losses.

Variable remuneration for staff

The Bank has set the fixed remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus will be paid purely at the discretion of the NRC in recognition of the employees' exceptional effort in any given financial year.

The Variable Pay Scheme is based on the following premise:

1. Employees' incentive payments must be linked to the contribution of the individual and business to such performance to promote a performance-driven culture within the Bank.
2. Sensitive to the time horizon of risks and variable remuneration is therefore deferred accordingly.
3. Ensure those performers (unit or individual) who exceed the target are appropriately rewarded.
4. Align total compensation with industry practice.

Should the NRC decide to approve, the variable pay will be determined as follows:

1. The bonus pool will be in direct proportion to the performance of the Bank. The target setting for the Bank considers the funding required for distribution of bonus including the net book value based employee phantom or shadow shares.
2. The costs associated with the employee(s) shadow shares scheme are typically the following:
   i. The net book value of the shadow shares awarded as part of the bonus shall be charged to staff costs in full in the year of award;
   ii. The difference in net book value between the grant date and the vesting date. At the end of each performance period the difference between the net book value at the grant date and the current net book value for all the vested as well as unvested portion of the previous performance period(s) shadow shares will be charged to the income statement as part of staff costs;
3. Dividends on the awarded shadow shares for the performance period will be provided for and charged to the income statement as and when it is due to the employee;
4. Cash equivalent of bonus shadow shares, if any, declared on the awarded and unvested shares will be charged to the income statement;
5. Miscellaneous costs associated with administration of the employee(s) shadow shares scheme will be charged to the income statement;
6. The bonus pool is computed as a percentage of the realized profit based on the level of target achieved.
7. This bonus pool is subject to the following additional limits:
   a. The impact of the bonus pool is not more than 1.00% on the capital adequacy as computed as per Basle III guidelines and taking into consideration the CBB's minimum capital adequacy requirements; and
   b. The bonus pool shall not exceed the Total Fixed Remuneration paid during the financial year.
8. In the years when the Bank achieves less than 50% of the target or makes a loss, the Bank score is zero and so no bonus pool will be computed. In addition, the NRC could invoke clawback or malus clause pertaining to the bonuses paid out in earlier years. Recognition of staff who have achieved or exceeded their targets may take place by way of deferred bonuses, which may be paid once the Bank's performance improves.

Remuneration of control functions

The remuneration level of staff in the control functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control function personnel is weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is determined independently from (and not by the individual financial performance of) the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the control functions on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk control, compliance and ethical considerations as well as the market and regulatory environment, apart from value adding tasks which are specific to each unit.

Variable compensation for business units

The variable compensation for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as market and regulatory environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk on behalf of the Bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy reduces employees' incentives to take excessive and undue risk, is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

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

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior to distribution of the annual bonus.

The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of a Bank's current capital position and it's internal capital adequacy assessment process ("ICAAP").

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

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

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

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

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

The NRC keeps itself abreast with the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against risk assumptions. In years where the Bank suffers material losses, the risk adjustment framework would work as follows:

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean certain individual key performance indicators are not met and hence employee performance ratings would be lower.
- Reduction in value of deferred phantom shares or awards.
- If the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous bonus awards may be considered.

The NRC, with Board approval, can rationalize and make the following discretionary decisions:

- Increase / reduce the ex-post adjustment.
- Consider additional deferrals of phantom share awards.
- Recovery through malus and clawback arrangements.

REMUNERATION DISCLOSURES (CONTINUED)

FOR THE YEAR ENDED 2017

Malus and clawback framework

The Bank's malus and clawback provisions allow the NRC to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited / adjusted or the delivered variable compensation could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term.

Any decision to take back an individual's award can only be taken by the NRC (taking into account the advice of the CEO and the Risk, Finance, HR, Legal & Compliance and other departments as appropriate).

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

- Reasonable evidence of material error or a breach of Bank's policy by the employee(s);
- The Bank or the Business Unit suffers material losses or significant loss of business which could be attributed to the actions of the employee(s);
- The employee(s) could be held responsible for material failure of risk management; and
- Evidence of fraud or collusion amongst employee(s) or by employee(s) with third parties and which is prosecutable in a court of law.

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

Components of variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.
Upfront phantom shares	The portion of variable compensation that is awarded and issued in the form of phantom shares on conclusion of the performance evaluation process for each year.
Deferred phantom shares	The portion of variable compensation that is awarded and paid in the form of phantom shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All phantom share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of phantom share awards is linked to the Bank's share price as per the rules of the Bank's phantom share incentive plan rules. Any dividend on these phantom shares is released to the employee along with the phantom shares (i.e. after the retention period in line with the incentive plan rules).

Deferred compensation

All covered employees shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, his deputies and 5 most highly paid business line employees	Other covered staff	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	immediate	-	-	Yes
Deferred cash	10%	-	Over 3 years	-	Yes	Yes
Upfront phantom shares	-	10%	immediate	6 months	Yes	Yes
Deferred phantom shares	50%	40%	Over 3 years	6 months	Yes	Yes

The NRC, based on its assessment of role profiles and risk taken by an employee, could increase the coverage of employees that would be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors

	2017 (USD'000)	2016 (USD'000)
• Sitting Fees	37	93
• Air Ticket and Hotel Expenses	10	41
• Others	13	12

(b) Sharia Supervisory Board

	2017 (USD'000)	2016 (USD'000)
• Sitting Fees	12	14
• Retention Fees	100	100

REMUNERATION DISCLOSURES (CONTINUED)

FOR THE YEAR ENDED 2017

(c) Employee remuneration

2017

		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration				
						Upfront		Deferred		
(USD'000)	**Number of staff**	**Cash**	**Others**	**(Cash / phantom shares)**	**(Cash / phantom shares)**	**Cash**	**Phantom Shares**	**Cash**	**Phantom Shares**	**Total**
Approved persons										
Business lines	7	1,212	95	-	-	-	-	-	-	1,307
Control & support	4	406	87	-	-	-	-	-	-	493
Other material risk takers	-	-	-	-	-	-	-	-	-	-
Other staff	24	1,125	334	-	-	-	-	-	-	1,459
TOTAL	35	2,743	516	-	-	-	-	-	-	3,259

2016

	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration				
						Upfront		Deferred		
(USD'000)		Cash	Others	(Cash / phantom shares)	(Cash / phantom shares)	Cash	Phantom Shares	Cash	Phantom Shares	Total
Approved persons										1,509
- Business lines	9	1,382	127	-	-	-	-	-	-	477
- Control & support	7	411	66	-	-	-	-	-	-	-
Other material risk takers	-	-	-	-	-	-	-	-	-	1,499
Other staff	25	1,159	340	-	-	-	-	-	-	3,485
TOTAL	41	2,952	533	-	-	-	-	-	-	-

(d) Deferred awards

IIB has not paid any deferred awards for the year 2017 and 2016.

(e) Severance pay

IIB has not paid under Severance pay during 2017 and 2016 any amount other than what is contractual or law related requirements payments.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 2017

31 DECEMBER 2017

SHARI'AH SUPERVISORY BOARD REPORT

INTERNATIONAL INVESTMENT BANK B.S.C. (C)

MANAMA, KINGDOM OF BAHRAIN

On the audited Financial Statements for the year-ending December 31, 2017 International Investment Bank

In compliance with the terms of our letter of appointment, we are required to report as follows:

BANK PERFORMANCE

The Shari'ah Supervisory Board ("SSB") was presented with all the investments, contracts and agreements that were conducted by the International Investment Bank ("Bank") during the course of the year ending December 31, 2017. The SSB reviewed the principles, contracts and agreements relating to all these investments in order to issue an independent opinion on whether the Bank followed the principles of the Islamic Shari'ah, specific fatwas, and guidelines issued by the SSB.

The SSB also reviewed the Shari'a reports issued by the Internal Shariah Audit Department, which were completed in accordance with the Shari'a audit plan approved by the Shari'ah Board. The SSB approved these reports, which include the Bank's operations and its subsidiaries.

Respective responsibility of the Bank's Management and the Shari'ah Supervisory Board

Where the Bank's management is responsible for ensuring that its operations are carried out in compliance with SSB rulings. Whereas, the duty of the SSB to express an independent view on the Bank's investments, contracts and agreements made by the Bank during the year-ending December 31, 2017.

In our opinion:

1. The Bank's contracts, transactions and deals in general for the year ending December 31, 2017 comply with the rules and principles of the Islamic Shari'ah.

2. The Bank's allocation of profit and charging of losses relating to investment accounts comply with the rules and principles of the Islamic Shari'ah as per Accounting and Auditing Organization for Islamic Financial Institutions.

3. The Bank's allocation of earnings realized from non-Shari'ah compliant sources has been donated to charitable originations.

4. The Bank's calculation of Zakat complies with the rules and principles of the Islamic Shari'ah and has been calculated in accordance with the Net Asset Method described in the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") standards and it is the responsibility of the shareholders to pay their Zakat allocation.

5. As for the Bank's investments in Azerbaijan "Amrah Bank", the situation remains the same, as it has not yet been converted to a Shariah Compliant Bank or exited as requested by the SSB in it resolutions.

We beseech the Almighty to grant us excellence and success.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sh. Dr. Nizam Yaqouby	**Sh. Dr. Osama Bahar**	**Sh. Abdul Nasser Al-Mahmoud**
Chairman	Member	Member

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

INTERNATIONAL INVESTMENT BANK B.S.C. (C)

MANAMA, KINGDOM OF BAHRAIN

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Basis of opinion

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

Opinion

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

Emphasis of matter

We draw attention to note 5 in the consolidated financial statements, which discusses the significant impairment recognised on the Musharaka financing during the year and to note 27, which discusses the consequential impact on the capital position of the Bank. Our opinion is not modified in respect of this matter.

Report on other regulatory requirements

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

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

b) the financial information contained in the board of directors report is consistent with the consolidated financial statements;

c) As disclosed in note 27, the Bank's total equity as at 31 December 2017 was below the minimum regulatory requirements. Except for this, we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

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

KPMG

KPMG Fakhro

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
US$ 000's

	Note	31 December 2017	31 December 2016 (Restated) (note 29)
ASSETS			
Cash and balances with banks		3,990	3,193
Placements with financial institutions		2,123	8,406
Investment securities	6	54,116	66,605
Assets acquired-for-leasing	7	65,116	68,614
Investment in real estate	8	11,883	23,158
Musharaka financing	5	-	25,144
Equity-accounted investees	9	830	830
Other assets	10	3,361	3,693
Total assets		**141,419**	199,643
LIABILITIES			
Financing liabilities	11	2,160	17,209
Liabilities related to assets acquired-for-leasing	12	56,863	60,760
Other liabilities	13	4,148	10,305
Total liabilities		**63,171**	88,274
OWNERS' EQUITY			
Share capital	14	109,996	109,996
Treasury shares	14	(6,798)	(6,798)
Share premium		19,645	19,645
Accumulated losses		(58,302)	(27,485)
Statutory reserve		6,980	6,980
Investments fair value reserve		167	864
Equity attributable to shareholders of Bank		**71,688**	103,202
Non-controlling interests		6,560	8,167
Total owners' equity		**78,248**	111,369
Total liabilities and owners' equity		**141,419**	199,643

The consolidated financial statements consisting of pages 2 to 38 were approved by the Board of Directors on 22 February 2018 and signed on its behalf by:

Saeed Abdul Jalil Al Fahim
Chairman

Fareed Bader
Acting Chief Executive Officer & Board Member

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017
US$ 000's

	Note	2017	2016
INCOME			
Income from investment securities	15	980	(5,984)
Income from assets acquired for leasing, net	7	1,313	1,099
Income from placements with financial institutions		49	179
Rental income from investment in real estate		293	338
Foreign exchange loss		(3)	(33)
Share of loss of equity-accounted investee		-	(5)
Total income		**2,632**	(4,406)
EXPENSES			
Staff cost	16	3,320	3,574
Finance expenses		366	1,487
Legal and professional expenses		372	912
Premises costs		312	306
Other operating expenses	17	2,009	1,560
Total expenses		**6,379**	7,839
Loss before impairment allowances		**(3,747)**	(12,245)
Impairment allowances (charge) / reversal:			
- Musharaka financing		(25,144)	-
- Investment securities		(2,926)	(8,443)
- Investment in real estate		-	(1,083)
- Receivables		(530)	831
LOSS FOR THE YEAR		**(32,347)**	(20,940)
Attributable to:			
Shareholders of the Bank		(30,817)	(21,673)
Non-controlling interests		(1,530)	733
		(32,347)	(20,940)

The consolidated financial statements consisting of pages 2 to 38 were approved by the Board of Directors on 22 February 2018 and signed on its behalf by:

Saeed Abdul Jalil Al Fahim
Chairman

Fareed Bader
Acting Chief Executive Officer & Board Member

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

US$ 000's

	Attributable to shareholders of the Bank								
31 December 2017	**Share capital**	**Treasury shares**	**Share premium**	**Accumulated losses**	**Statutory reserve**	**Investments fair value reserve**	**Total**	**Non-controlling interests**	**Total owners' equity**
Balance at 1 January 2017	109,996	(6,798)	19,645	(27,485)	6,980	864	103,202	8,167	111,369
Loss for the year (page 4)	-	-	-	(30,817)	-	-	(30,817)	(1,530)	(32,347)
Fair value changes during the year (net)	-	-	-	-	-	(697)	(697)	-	(697)
Total recognised income and expense for the year	**-**	**-**	**-**	**(30,817)**	**-**	**(697)**	**(31,514)**	**(1,530)**	**(33,044)**
Distribution to non-controlling interests	-	-	-	-	-	-	-	(77)	(77)
Balance at 31 December 2017	**109,996**	**(6,798)**	**19,645**	**(58,302)**	**6,980**	**167**	**71,688**	**6,560**	**78,248**

	Attributable to shareholders of the Bank									
31 December 2016 (restated)	Share capital	Treasury shares	Share premium	Accumulated losses	Statutory reserve	Investments fair value reserve	Property fair value reserve	Total	Non-controlling interests	Total owners' equity
Balance at 1 January 2016	109,996	(6,798)	51,240	(37,369)	6,980	2,693	262	127,004	4,944	131,948
Loss for the year (page 4)	-	-	-	(21,673)	-	-	-	(21,673)	733	(20,940)
Fair value changes during the year	-	-	-	-	-	(1,773)	(262)	(2,035)	-	(2,035)
Total recognised income and expense for the year	-	-	-	(21,673)	-	(1,773)	-	(23,708)	733	(22,975)
Adjustment of accumulated losses	-	-	(31,595)	31,595	-	-	-	-	-	-
Transfer to income statement on disposal	-	-	-	-	-	(56)	-	(56)	-	(56)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(142)	(142)
Changes in non-controlling interests	-	-	-	(38)	-	-	-	(38)	400	362
Non-controlling interests related to subsidiary acquired	-	-	-	-	-	-	-	-	2,232	2,232
Balance at 31 December 2016	109,996	(6,798)	19,645	(27,485)	6,980	864	-	103,202	8,167	111,369

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
US$ 000's

	2017	2016 (restated)
OPERATING ACTIVITIES		
Loss for the year	(32,347)	(20,940)
Adjustments for:		
Net fair value loss on investment securities	29,583	16,046
Share of loss of an associate	-	5
Depreciation and amortization	3,498	3,564
Finance expense	366	1,487
Amortisation of deferred expense	103	103
Loss/(gain) on sale of investments, net	217	(907)
Operating profit / (loss) before changes in operating assets		
and liabilities		(642)
Changes in operating assets and liabilities:		
Other assets	8,386	1,077
Other liabilities	(10,054)	(3,791)
Net cash flows used in operating activities	**(248)**	(3,356)
INVESTING ACTIVITIES		
Purchase of investments	(5,570)	(8,458)
Net cash flows on acquisition of a subsidiary	-	(2,253)
Proceeds from disposal of investments	15,467	8,020
Purchase of equipment, net	(9)	(66)
Net cash flows generated from/(used in) investing activities	**9,888**	(2,757)
FINANCING ACTIVITIES		
Financing liabilities repaid	(15,049)	(20,373)
Distribution to non-controlling interests	(77)	(1,320)
Net cash flows used in financing activities	**(15,126)**	(21,693)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(5,486)**	(27,806)
Cash and cash equivalents at beginning of the year	11,599	39,405
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**6,113**	11,599
Cash and cash equivalents comprise:		
Cash and balances with banks	3,990	3,193
Placements with financial institutions (with original maturities of 3 months or less)	2,123	8,406
	6,113	11,599

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
US$ 000's

1. INCORPORATION AND ACTIVITIES
International Investment Bank B.S.C.(c) (the "Bank"), is a joint stockholding company incorporated in the Kingdom of Bahrain on 6 October 2003 under commercial registration (CR) number 51867. The Bank operates as an Islamic Wholesale Investment Bank under a license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is 37th floor, Al Moayyed Tower, PO Box 11616, Manama, Kingdom of Bahrain.

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

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

CONSOLIDATED FINANCIAL STATEMENTS
The consolidated financial statements comprise the results of the Bank and its subsidiaries.
The following are the principal subsidiaries of the Bank that are consolidated:

Subsidiary	Beneficial ownership interests		Year of incorporation / acquisition	Country of incorporation	Principal activity
	2017	2016			
Isthetmary Sarajeevo City Centre –I Limited	93.77%	93.77%	2009	Cayman Islands	Investment in real estate
Isthetmary Al Fareeda B.S.C. (c)	100%	100%	2008	Bahrain	Investment in real estate
Bahrain Bunny Shares & Securities Co WLL.	63.10%	63.10%	2012	Bahrain	Investment in quick service restaurant business
Multifamily Residential Ltd –I ("MR-I")	100%	100%	2013	Cayman Islands	Investment in real estate
Multifamily Residential Ltd – II ("MR-II")	100%	100%	2013	Cayman Islands	Investment in real estate
IIB Aircraft Lease SPC Limited	100%	100%	2014	Cayman Islands	Purchase and lease of aircraft
IIB German Property Company Limited	56.83%	56.83%	2016	Cayman Islands	Investment in real estate
IIB France Investments Holding BSC (c)	50.57%	50.57%	2016	Bahrain	Investment in real estate

The Group has other special purpose entities (SPE's) holding companies which are set up to supplement the activities of the Group and its principal subsidiaries.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
US$ 000's

2. BASIS OF PREPARATION

a) Statement of compliance

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

New standards, amendments and interpretations effective from 1 January 2017

There are no AAOIFI accounting standards or interpretations issued that are effective for the first time for the financial year beginning on or after 1 January 2017 that are expected to have a material impact on the Group.

New standards, amendments and interpretations issued but not yet effective for adoption

FAS 30 – Impairment, credit losses and onerous commitments

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

FAS30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach ("NRV") and 3) Impairment approach.

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

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

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

Expected credit losses

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

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

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

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
US$ 000's

2) BASIS OF PREPARATION (continued)

The Group estimates the FAS 30 transition amount will not reduce shareholders' equity based on the current assets held by the Group as at 31 December 2017. The Group continues to revise, refine and validate the impairment models and related process controls which may change the actual impact on adoption.

b) Basis of measurement

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

c) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The financial statements of a subsidiary are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 26.

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

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

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

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

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
US$ 000's

2) BASIS OF PREPARATION (continued)

c) Basis of consolidation (continued)

ii) Investment in associates (Equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exit when the Group holds between 20% and 50% of the voting power of another entity.

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

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an equity-accounted investee at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment. When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

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

iii) Transactions eliminated on consolidation and equity accounting

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

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

d) Business combination

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

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

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
US$ 000's

2) BASIS OF PREPARATION (CONTINUED)

c) Business combination (continued)

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3) SIGNIFICANT ACCOUNTING POLICIES

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

a) Foreign currency transactions

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

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

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.
When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

b) Investment securities

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

i) Classification

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

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

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
US$ 000's

3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Investment securities (Continued)

At fair value through income statement (FVTIS)
These investments are either not managed on contractual yield basis or designated on initial recognition at FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognised the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

At amortised cost
This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis. These include investments in short term to long-term sukuk.

Equity-type instruments

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

At fair value through income statement (FVTIS)
Equity-type instruments classified and measured at FVTIS include investments designated on initial recognition at FVTIS.

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

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

ii) Recognition and de-recognition

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

iii) Measurement

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

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

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

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

US$ 000's

3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Investment securities (Continued)

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

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

iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

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

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

c) Placements with financial institutions

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

d) Musharaka financing

Musharaka financing is a form of a partnership between the Bank and its clients / investors whereby each party contributes to the capital in partnership in equal or varying degrees to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have his due share of profits. However, losses are shared in proportion to the contributed capital

Musharaka financing is recognized at the amount paid or made available, when it is paid to the partner or made available to them on account of the musharaka. The Group's share in musharaka financing is measured at the date of consolidated statement of financial position at historical cost. Profits in respect of the Group's share in musharaka financing transactions are recorded to the extent the profits are distributed and declared and losses are recognized to the extent that such losses are being deducted from the Group's share of musharaka capital.

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3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Investment in real estate

Investment in real estate comprises of a building held to earn rental income and/or are expected to benefit from capital appreciation. Investment in real estate are measured initially at cost, including directly attributable expenditure. Subsequently, investment in real estate are carried at fair value.

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

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

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

f) Assets and liabilities related to assets acquired for leasing

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

Liabilities related to assets acquired for leasing represent long term finance facilities obtained from financial institutions. Liabilities related to assets acquired for leasing are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing costs are recognised in the consolidated income statement as finance expense. The Group derecognises its liability relating to assets acquired for leasing when its contractual obligations are discharged, cancelled or expire.

g) Impairment of assets

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

Financial assets carried at amortised cost

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

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3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments carried at fair value through equity (FVTE)
In the case of equity type instruments carried at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss.

If any such evidence exists for equity type instruments, the recognised re-measurement loss shall be transferred from equity to the consolidated income statement. Impairment losses recognised in consolidated income statement for an equity investment are reversed directly through equity.

Other non-financial assets

The carrying amount of the Group's assets or its cash generating unit, other than financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement.

Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

h) Financing liabilities

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

i) Share capital and reserves

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

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the consolidated financial statements as a change in owner's equity. No gain or loss is recognised on the Group's consolidated income statement on the sale of treasury shares.

Statutory reserve

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

j) Cash and cash equivalents

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

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3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Revenue recognition

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

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

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

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Fair value gain / (loss) on investment securities (recognised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 3 (b)).

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

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

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

l) Earnings prohibited by Shari'a

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

m) Zakah

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

n) Employees benefits

i) Short-term benefits

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

ii) Post employment benefits

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

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

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3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

u) Offsetting of financial instruments
Financial instruments comprise of financial assets and financial liabilities. Financial assets include cash and balances with banks, placements with financial institutions, financing receivables, investment securities and other assets. Financial liabilities include wakala payable, financing liabilities related to assets acquired for leasing and other liabilities.

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

Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

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

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgement

Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 3 (b)).

Special Purpose Entities

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

Estimations

Fair value of financial instruments

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

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

Impairment on investments carried at fair value carried through equity

Equity-type instruments classified as investments at FVTE comprise investments in certain unquoted equity securities in diversified sectors. In assessing impairment, the Group evaluates among other factors, liquidity of the investee, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in operational and financing cash flows. The Group has exposures to investments that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

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4) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Fair value of investment in real estate

The fair value of investment in real estate is determined by independent real estate valuation experts. Having recent experience in the locations and segments of the investment in real estate that is being valued. The determination of the fair value of such assets requires the use of judgment based on estimates by independent valuation experts that are based on local market conditions existing at the reporting date. For all investment in real estate, their current use equates to the highest and best use. Buildings were valued based on capitalization of future rental cash flows, and expected realizable amounts through sale in an orderly manner.

Impairment of receivables

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

Impairment of non-financial assets

The fair value of non-financial assets are measured using valuation techniques such as discounted cash flow valuations and recent transaction prices.

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5) MUSHARAKA FINANCING

Musharaka financing represents equity participation by the Bank through debt and equity structure for acquisition of properties in United States of America (USA) through structured vehicles. The Bank has 95% economic interest in Atlas Multifamily Three LLC ("Atlas"), a company incorporated in USA for holding the underlying properties. The properties were acquired through a combination of debt US$ 215.7 million and Musharaka financing of US$ 25 million. Total debt comprises of US$ 144.7 million of senior debt and US$ 71 million of mezzanine financing.

During the year, the mezzanine financing lender called a default and auctioned the properties to settle its dues. The Bank is contesting the validity of the auction process in court to safeguard its interest, the outcome of which cannot be ascertained on the date of the approval of these consolidated financial statements. Accordingly, the Group has fully impaired it's Musharaka financing of US$ 25.144 million (2016: Nil).

6) INVESTMENT SECURITIES

	31 December 2017	31 December 2016
Debt type instruments		
At amortized cost		
- Quoted sukuk	-	9,966
Equity type instruments		
At fair value through income statement		
- Unquoted equity securities	42,091	40,780
At fair value through equity		
- Quoted equity securities	3,731	4,724
- Unquoted equity securities	8,294	11,135
	54,116	66,605

a) Equity type investments - At fair value through income statement

	2017	2016
At 1 January	40,780	48,071
Fair value changes	1,311	(7,291)
At 31 December	**42,091**	40,780

b) Equity type investments - At fair value through equity

	2017	2016
At 1 January	15,859	30,423
Purchase during the year	-	3,480
Elimination on consolidation of a subsidiary	-	(2,943)
Fair value changes	(697)	(1,659)
Disposals during the year, at carrying value	(211)	(4,434)
Impairment charge for the year	(2,926)	(9,008)
At 31 December	**12,025**	15,859

Quoted investments include US$ 3,645 thousand (2016: US$ 4,516 thousand) held on behalf of the Bank, in the name of related parties for which risk and rewards are borne by the Bank.

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7) ASSETS ACQUIRED FOR LEASING

Aircraft:	**2017**	2016
Cost		
At 1 January	77,750	77,750
Additions during the year	-	-
Disposals during the year	-	-
At 31 December	**77,750**	77,750
Accumulated depreciation		
At 1 January	9,136	5,638
Charge for year	3,498	3,498
At 31 December	**12,634**	9,136
Net book value at 31 December	**65,116**	68,614

Assets acquired for leasing comprise an aircraft acquired in 2015 through a combination of equity and financing and leased to Finn Air for a period of 12 years. Depreciation is calculated based on estimated useful life of 12 years and residual value of US$ 36 million.

Income of assets acquired for leasing represents:

	2017	2016
Lease rental income	8,154	8,132
Less:		
Finance cost	(3,008)	(3,196)
Depreciation	(3,498)	(3,498)
Other operating expenses	(335)	(339)
Income of assets acquired for leasing, net	**1,313**	1,099

2017	**Up to 1 year**	**1-5 years**	**Over 5 years**
Future minimum lease rentals	8,154,180	32,616,720	29,219,145

2016	Up to 1 year	1-5 years	Over 5 years
Future minimum lease rentals	8,154,180	32,616,720	37,373,325

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8) INVESTMENT IN REAL ESTATE

	31 December 2017	31 December 2016 (restated)
Buildings	11,883	23,158
	11,883	**23,158**

	2017	2016
At 1 January	23,158	5,547
Additions on acquisition of a subsidiary	-	18,596
Fair value changes	-	(262)
Impairment	-	(723)
Disposals	(11,275)	-
At 31 December	**11,883**	**23,158**

Investment in real estate comprise of buildings, in Kingdom of Bahrain and France. The properties are stated at fair value, determined based on valuations performed by independent professional valuers as of 31 December 2017.

9) EQUITY-ACCOUNTED INVESTEES

Investment in associates comprise:

Entity	Country of incorporation	% holding	Nature of activities
IIB UAE Investments Limited	Cayman	27.32%	Invest in income generating residential, office and commercial real estate assets

	2017	2016
At 1 January	830	835
Share of equity-accounted investees	-	-
Share of reserve of equity accounted investees	-	-
Impairment allowance	-	(5)
At 31 December	**830**	830

Summarised financial information of associate that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group and related subsequent acquisition accounting adjustment (based on most recent audited financial statements / most recent management accounts):

	2017	2016
Assets	12,743	12,756
Liabilities	494	490
Revenue	-	-
(Loss) / profit for the year	(17)	(24)

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10) OTHER ASSETS

	31 December 2017	31 December 2016 (restated)
Receivables	2,069	2,152
Accrued profit on sukuk	-	158
Staff receivable	19	40
Prepaid expenses	194	130
Equipment	125	181
Others	954	1,032
	3,361	3,693

11) FINANCING LIABILITIES

Financing liabilities partly represents Wakala financing obtained in 2014 from a Ministry in the Kingdom of Bahrain on unsecured basis. The wakala financing is repayable on December 2018 and carries annual profit rate of 6%. During the period, the Group fully repaid US$ 10.2 million (2016: US$ 20 million) of the financing liabilities.

Other borrowings represents financings for the purchase of investments in real estate and are secured against the investment in real estate held through special purpose vehicle and do not have any recourse to the Bank.

12) LIABILITIES RELATED TO ASSETS ACQUIRED FOR LEASING

Liabilities related to assets acquired for leasing represents financing obtained in the form of a senior loan and mezzanine loan to fund assets acquired for leasing (note 7). The financing carries yearly profit rate of 4.34% - 6.5% with maturity in July 2026. The assets acquired for leasing are mortgaged towards repayment of the financing and does not have a recourse to the Bank

The breakdown of the liabilities is as given below:

	31 December 2017	31 December 2016
Current portion	53,148	57,045
Non-current portion	3,715	3,715
	56,863	60,760

13) OTHER LIABILITIES

	31 December 2017	31 December 2016 (restated)
Employee related accruals	292	371
Advance rent received	453	476
Accrued expenses	881	721
Other payables	2,522	8,737
	4,148	10,305

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14) SHARE CAPITAL

	31 December 2017	31 December 2016
Authorized:		
200,000,000 (2016: 200,000,000) ordinary shares at US$ 1 per share	**200,000**	200,000
Issued, subscribed and paid-up capital		
109,996,000 (2016: 109,996,000) ordinary shares at US$ 1 per share	**109,996**	109,996

At 31 December 2017, the Bank held 3,000,000 (31 December 2016: 3,000,000) treasury shares.

15) INCOME FROM INVESTMENT SECURITIES

	2017	2016
(Loss) / gain on sale of investment securities	(217)	907
Fair value changes on investment securities	983	(7,351)
Income from sukuk	214	334
Dividend and other income	-	126
	980	(5,984)

16) STAFF COST

	2017	2016
Salaries and benefits	3,238	3,490
Social insurance expenses	82	84
	3,320	3,574

17) OTHER EXPENSES

	2017	2016
Deal related expenses	1,230	484
Directors sitting fees	35	93
Directors expenses	23	53
Shari'a supervisory board expenses	112	144
Advertisement expenses	58	72
Business travel expenses	82	72
Depreciation	72	65
IT expenses	52	84
Others	345	524
	2,009	1,560

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18) CONCENTRATION OF ASSETS AND LIABILITIES

a) Industry sector

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

	Trading and Manufacturing	Banks and financial institutions	Real estate	Aviation	Others	Total
31 December 2017						
Assets						
Cash and balances with banks	-	3,396	592	-	2	3,990
Placements with financial institutions	-	2,123	-	-	-	2,123
Investment securities	5,300	418	41,917	-	6,481	54,116
Assets acquired for leasing	-	-	-	65,116	-	65,116
Investment in real estate	-	-	11,883	-	-	11,883
Musharaka financing	-	-	-	-	-	-
Equity-accounted investees	-	-	830	-	-	830
Other assets	-	-	2,058	961	342	3,361
Total assets	**5,300**	**5,937**	**57,280**	**66,077**	**6,825**	**141,419**
Liabilities						
Financing liabilities	-	-	2,160	-	-	2,160
Liabilities related to assets acquired for leasing	-	-	-	56,863	-	56,863
Other liabilities	-	25	1,957	452	1,714	4,148
Total liabilities	**-**	**25**	**4,117**	**57,315**	**1,714**	**63,171**

	Trading and Manufacturing	Banks and financial institutions	Real estate	Aviation	Others	Total
31 December 2016 (Restated)						
Assets						
Cash and balances with banks	-	2,562	629	-	2	3,193
Placements with financial institutions	-	8,406	-	-	-	8,406
Investment securities	6,472	10,299	39,437	-	10,397	66,605
Assets acquired for leasing	-	-	-	68,614	-	68,614
Investment in real estate	-	-	23,158	-	-	23,158
Musharaka financing	-	-	25,144	-	-	25,144
Equity-accounted investees	-	-	830	-	-	830
Other assets	1	208	2,035	1,094	355	3,693
Total assets	**6,473**	**21,475**	**91,233**	**69,708**	**10,754**	**199,643**
Liabilities						
Financing liabilities	-	-	7,022	-	10,187	17,209
Liabilities related to assets acquired for leasing	-	-	-	60,760	-	60,760
Other liabilities	-	31	7,801	476	1,997	10,305
Total liabilities	**-**	**31**	**14,823**	**61,236**	**12,184**	**88,274**

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19) MATURITY PROFILE OF ASSETS AND LIABILITIES

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

31 December 2017	**Up to**	**3 months**	**Total up to**	**1 to 3**	**3 to 5**	**No stated**	
Assets	**3 months**	**to 1 year**	**1 year**	**years**	**years**	**maturity**	**Total**
Cash and balances with banks	3,990	-	3,990	-	-	-	3,990
Placements with financial institutions	2,123	-	2,123	-	-	-	2,123
Investment securities	-	-	-	54,116	-	-	54,116
Assets acquired for leasing	-	-	-	-	-	65,116	65,116
Investment in real estate	-	-	-	11,883	-	-	11,883
Musharaka financing	-	-	-	-	-	-	-
Equity-accounted investees	-	-	-	830	-	-	830
Other assets	375	1,728	2,103	543	590	125	3,361
Total assets (a)	**6,488**	**1,728**	**8,216**	**67,372**	**590**	**65,241**	**141,419**
Liabilities							
Financing liabilities	-	-	-	2,160	-	-	2,160
Liabilities related to assets acquired-for-leasing	-	-	-	-	-	56,863	56,863
Other liabilities	1,441	481	1,922	2,226	-	-	4,148
Total liabilities (b)	**1,441**	**481**	**1,922**	**4,386**	**-**	**56,863**	**63,171**
Commitments (c)	11	33	44	-	-	-	44
Net liquidity gap (a-b-c)	**5,036**	**1,214**	**6,250**	**62,986**	**590**	**8,378**	**78,204**
Cumulative net liquidity gap	**5,036**	**1,214**	**6,250**	**62,986**	**590**	**8,378**	**78,204**

31 December 2016 (restated)	Up to	3 months	Total up to	1 to 3	3 to 5	No stated	
Assets	3 months	to 1 year	1 year	years	years	maturity	Total
Cash and balances with banks	3,193	-	3,193	-	-	-	3,193
Placements with financial institutions	8,406	-	8,406	-	-	-	8,406
Investment securities	-	4,979	4,979	56,639	4,987	-	66,605
Assets acquired for leasing	-	-	-	-	68,614	-	68,614
Investment in real estate	-	-	-	23,158	-	-	23,158
Musharaka financing	-	-	-	-	25,144	-	25,144
Equity-accounted investees	-	-	-	830	-	-	830
Other assets	348	109	457	1,848	1,207	181	3,693
Total assets (a)	11,947	5,088	17,035	82,475	99,952	181	199,643
Liabilities							
Financing liabilities	-	187	187	17,022	-	-	17,209
Liabilities related to assets acquired for leasing	-	-	-	-	-	60,760	60,760
Other liabilities	1,321	188	1,509	8,796	-	-	10,305
Total liabilities (b)	1,321	375	1,696	25,818	-	60,760	88,274
Commitments (c)	53	160	213	44	-	-	257
Net liquidity gap (a-b-c)	10,573	4,553	15,126	56,613	99,952	(60,579)	111,112
Cumulative net liquidity gap	10,573	4,553	15,126	56,613	99,952	(60,579)	111,112

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20) RELATED PARTY BALANCES AND TRANSACTIONS

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

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

	31-Dec-17				31-Dec-16			
	Associates	**Major shareholders / entities in which directors are interested**	**Assets under management**	**Total**	Associates	Major shareholders / entities in which directors are interested	Assets under management	Total
Assets								
Musharaka financing	-	-	-	-	-	-	25,144	25,144
Investment securities	36,968	3,645	13,503	**54,116**	34,442	4,516	17,681	56,639
Equity-accounted investees	830	-	-	**830**	830	-	-	830

	2017				2016			
	Associates	**Major shareholders / entities in which directors are interested**	**Assets under management**	**Total**	Associates	Major shareholders / entities in which directors are interested	Assets under management	Total
Income								
Share of loss of equity-accounted investees	-	-	-	-	(5)	-	-	(5)
Musharaka financing	-	-	(25,144)	**(25,144)**	-	-	-	-
Income from investment securities	2,197	-	(1,215)	**983**	1,171	-	(8,522)	(7,351)
Expenses								
Impairment allowances	(1,453)	-	(1,472)	**(2,925)**	-	-	(9,009)	(9,009)

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

The key management personnel compensation is as follows:

	2017	2016
Board member fees and allowance	58	146
Salaries, other short-term benefits and expenses	2,000	2,422
Post-employment benefits	135	194

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21) FINANCIAL RISK MANAGEMENT

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

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

Risk in inherent in the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his/her responsibilities. The Group has a risk management and governance framework which is intended to integrate risk management in its strategic thinking and business practices.

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

Risk Management and Governance Structure

Board of Directors

The Board of Directors "the Board" is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Committee

The Audit Committee is appointed by the Board and consists of three non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies. Currently, all the members of the audit committee have resigned and the committee is non-functional.

Executive Committee

The Executive Committee comprising of the Board members considers and approves requests to purchase and sell individual investments up to the limit imposed by the Board.

Shari'a Supervisory Board

The Shari'a Supervisory Board reviews the principles and contracts relating to the transactions conducted by the Group to judge whether it followed the principles of the Islamic Shari'a and specific fatwas, rulings and guidelines issued.

Asset and Liability Committee

The Assets & Liabilities Committee is responsible for monitoring liquidity risk, profit rate risk, foreign currency limits/ exposures, capital adequacy and the overall asset/liability mix.

Investment Committee

Potential deals are presented to the Investment Committee for consideration and those worthy of further evaluation are forwarded to the Executive Committee for initial approval to initiate detailed due diligence procedures.

Risk Management Department

The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Group. It ensures that there are adequate control procedures in place such that the risks exposed to are within the approved limits.

Internal Audit

Risk management processes throughout the Group are audited at least annually by the Internal Audit Department, based on the risk-based audit plan approved by the Audit Committee. Audit staff examine both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, then reports its findings and recommendations to the Audit Committee.

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21) FINANCIAL RISK MANAGEMENT (continued)

Risk Management and Reporting Structure

Currently, the Group's assets mainly comprise cash and balances with banks, due from financial institutions, receivables and investments (including investment in real estate, asets held-for-sale, investment in ijarah asset and investment in associates). Balances with banks and due from financial institutions represent deposits with GCC incorporated banks with investment grade credit ratings. Investments comprise mainly retentions in the Bank's investment offerings, which are illiquid.

Monitoring and controlling risks is primarily performed based on limits approved by the Board. These limits reflect the business strategy and market environment of the Group as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Group also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

a) Credit risk

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

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

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

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

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FOR THE YEAR ENDED 31 DECEMBER 2017
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21) FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position except for investment securities (equity-type) which is already disclosed in note 24. The figures represent gross exposure net of any provision for impairment, without taking into account any collateral held and other credit mitigants.

	Maximum exposure	
	31 December 2017	31 December 2016 (restated)
Balances with banks	3,988	3,191
Placements with financial institutions	2,123	8,406
Musharaka financing	-	25,144
Investment Securities (Sukuk)	-	9,966
Other financial assets	2,088	2,192
	8,199	48,899

Credit quality per class of financial assets

The table below analyses the Group's maximum credit exposure where the credit quality is reflected by external credit ratings (S&P, Moody's, Fitch and Capital Intelligence) of the counterparties where relevant:

	2017 US$ '000	2016 US$ '000 (Restated)
Credit rating:		
A- and better	-	479
Ba1 and better	592	11,767
Unrated	7,590	36,615
	8,182	48,861

Ageing of financial assets

31 December 2017	**Neither past due not impaired**	**Past due but not impaired**	**Individually impaired**	**Impairment / provisions**	**Total**
Balances with banks	3,990	-	-	-	**3,990**
Placements with financial institutions	2,123	-	-	-	**2,123**
Musharaka financing	-	-	-	-	**-**
Investment securities (sukuk)	-	-	-	-	**-**
Other financial assets	2,069	-	-	-	**2,069**
	8,182	-	-	-	**8,182**

31 December 2016 (Restated)	Neither past due not impaired	Past due but not impaired	Individually impaired	Impairment / provisions	Total
Balances with banks	3,193	-	-	-	3,193
Placements with financial institutions	8,406	-	-	-	8,406
Musharaka financing	25,144	-	-	-	25,144
Investment securities (sukuk)	9,966	-	-	-	9,966
Other financial assets	2,218	-	(66)	-	2,152
	48,927	-	(66)	-	48,861

Past due represents amount overdue for 90 days or more. These are real estate exposures located mainly in Europe.

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21) FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations associated with financial liabilities.

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

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

	Gross undiscounted cash flows				
	Less than 3 months	**3 to 12 months**	**Over 1 year**	**Total**	**Carrying value**
At 31 December 2017					
Financing liabilities	-	-	2,160	2,160	2,160
Liabilities related to assets acquired for leasing	1,726	5,178	49,959	56,863	56,863
Other financial liabilities	1,441	169	2,538	4,148	4,148
Total financial liabilities	**3,167**	**5,347**	**54,657**	**63,171**	**63,171**
Commitments	-	-	-	-	-

	Gross undiscounted cash flows				
	Less than 3 months	3 to 12 months	Over 1 year	Total	Carrying value
At 31 December 2016 (Restated)					
Financing liabilities	150	450	17,622	18,222	17,209
Liabilities related to assets acquired for leasing	1,726	5,179	60,992	67,897	60,760
Other financial liabilities	1,321	188	8,796	10,305	10,305
Total financial liabilities	3,197	5,817	87,410	96,424	88,274
Commitments	-	-	-	-	-

c) Market risks

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

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

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

The Group manages its market risk exposures by limiting the exposure to listed equities and foreign exchange exposure and evaluating each new product and activity with respect to the market risk introduced by it.

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21) FINANCIAL RISK MANAGEMENT (continued)

c) Market risks (Continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Certain investments and other financial assets and liabilities are in other currencies and give rise to foreign currency risk.

The Bahraini Dinar (BHD), Saudi Riyal (SAR) and UAE Dirham (AED) are pegged to the US$ and resultantly positions in these currencies are not considered to represent significant currency risk. The Group had the following net foreign currency exposures at 31 December 2017:

	2017 **US$ '000**	2016 US$ '000
Euro	31,881	27,796
GBP	85	210
AZN (Azerbaijani Manat)	333	333
	32,299	28,339

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

		2017	2016
	Change in currency rate %	**Effect on**	Effect on
	exchange	**net loss**	net income/
	rate	**/equity**	Equity
	(+/-)	**(+/-)**	(+/-)
	%	**US$ '000**	US$ '000
Euro	**10%**	3,188	2,780
GBP	**10%**	9	21
AZN (Azerbaijani Manat)	**10%**	33	33

Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2017, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus US$ 187K thousand (2016: US$ 236 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The Group also has unquoted investments carried at fair value using either net asset value or valuations from independent valuers. Based on the values at 31 December 2017, a change in the valuation of 5% would change the value of these investments by plus or minus US$ 424 thousand (2016: US$ 556 thousand) with a corresponding increase or decrease in equity, except in case of further decline on impaired investments which will result in loss being taken to consolidated statement of income.

Prepayment risk

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

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21) FINANCIAL RISK MANAGEMENT (continued)
c) Market risks (continued)

Profit rate risk in banking book

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

31 December 2017	Up to 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Total
Assets					
Placements with financial institutions	2,123	-	-	-	2,123
Total profit rate sensitive assets	**2,123**	**-**	**-**	**-**	**2,123**
Liability					
Liabilities related to assets acquired for leasing	1,726	5,178	27,616	22,343	56,863
Financing liabilities		-	2,160	-	2,160
Total profit rate sensitive liabilities	**1,726**	**5,178**	**29,776**	**22,343**	**59,023**
Profit rate sensitivity gap	**397**	**(5,178)**	**(29,776)**	**(22,343)**	**(56,900)**

31 December 2016	Up to 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Total
Assets					
Placements with financial institutions	8,406	-	-		8,406
Investment securities (sukuk)	-	4,979	-	4,987	9,966
Total profit rate sensitive assets	8,406	4,979	-	4,987	18,372
Liability					
Liabilities related to assets acquired for leasing	966	2,898	15,456	41,440	60,760
Financing liabilities	-	-	17,209	-	17,209
Total profit rate sensitive liabilities	966	2,898	32,665	41,440	77,969
Profit rate sensitivity gap	7,440	2,081	(32,665)	(36,453)	(59,597)

The Group does not have floating rate non-trading financial assets or liabilities.

d) Operational Risk

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

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

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

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

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22) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Valuation techniques

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

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

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

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

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

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

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
fair value through income statement	-	-	42,091	42,091
fair value through equity	3,731	-	8,294	12,025
	3,731	**-**	**50,385**	**54,116**

31 December 2016	Level 1	Level 2	Level 3	Total
fair value through income statement	-	-	40,780	40,780
fair value through equity	4,724	-	11,135	15,859
	4,724	-	51,915	56,639

Movements in level 3 financial instruments

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

	31 December 2017	31 December 2016
At 1 January	51,915	48,071
Fair value changes	(1,530)	(7,655)
Purchases during the year	-	2,252
Disposals during the year	-	(2,258)
Sales and transfers into Level 3	-	11,505
At 31 December	**50,385**	51,915

Transfers between level 1, level 2 and level 3
There were no transfers between the levels during the year ended 31 December 2017.

For investment securities the Bank adjusted the discount rate ± 1% and carrying values ± 5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

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FOR THE YEAR ENDED 31 DECEMBER 2017
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23) SHARI'A SUPERVISORY BOARD
The Group's independent Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

24) EARNINGS PROHIBITED BY SHARI'A
Earnings prohibited by Shari'a, if earned are set aside for charitable purposes or otherwise dealt with in accordance with directions of the Shari'a Supervisory Board.

25) ZAKAH AND SOCIAL RESPONSIBILITY
Zakah is directly borne by the shareholders on distributed profits. Zakah payable by the shareholders, is computed by the Bank, based on the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders for the year ended 31 December 2017 is US$ Nil (2016: US$ Nil) subject to approval of shareholders.

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

26) ASSETS UNDER MANAGEMENT
Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position. In 2017 total assets under management amounted to US$ 54,116 (31 December 2016 US$ 56,639).

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

- **Tier 1 capital:** includes CET1 and AT1

CET1 comprises ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.
AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

- **Tier 2 capital,** includes instruments issued by the Group that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

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

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

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27) CAPITAL MANAGEMENT

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

	2017	2016
Total risk-weighted exposures	**349,438**	407,950
CET1 capital	73,257	103,247
Tier 1 capital	73,257	103,247
Total Capital	73,257	103,247
% of Total Risk Weighted Exposures (CAR)		
CET1 capital adequacy ratio	**20.96%**	25.31%
Tier1 capital adequacy ratio	**20.96%**	25.31%
Total capital adequacy ratio	**20.96%**	25.31%

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors.

During the year, the Group incurred losses of US$ 32.3 Million, most of which related to the impairment of Musharaka financing (refer note 5). This has reduced the Group's total equity as at 31 December 2017 to US$ 71.7 Million which is less than the minimum capital requirement of US$ 100 Million required under LR Module of Volume 2 of the Central Bank of Bahrain (CBB) rule book (LR 2.5.2B). The management of the Bank is in the process of evaluating options to increase total equity above the minimum requirements of the CBB rulebook.

28) SOCIAL RESPONSIBILITY

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

29) COMPARATIVES

In 2016, the Group had classified its investment in a subsidiary, IIB France B.S.C (c), as assets held-for-sale. During the year, because the investment no longer meets the criteria to be classified as held-for-sale, this was re-classified as held-for-use. In accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations, upon reclassification as held-for-use, the subsidiary was consolidated on a line by line basis including earlier periods resulting in restatement of the prior year as if the subsidiary had always been consolidated.

ADDITIONAL PUBLIC DISCLOSURES
FOR THE YEAR ENDED 2017

31 DECEMBER 2017

ADDITIONAL PUBLIC DISCLOSURES
AS AT 31 DECEMBER 2017
US$ 000'S

1. REGULATORY CAPITAL

1.1 Introduction

In order to support its business and maximise shareholder value, the Group's capital management ensures that the Group maintains adequate risk capital and complies with the capital requirements mandated by the Central Bank of Bahrain ("CBB") that include a healthy capital ratio. The primary concern is capital protection from loss.

The Group manages the risk capital to cover risks inherent in the business, especially credit, market and operational risks. The adequacy of the Group's regulatory capital base is monitored primarily using the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the CBB in supervising Bahrain-incorporated banks. The principal ratio is the Capital Adequacy Ratio that measures total qualifying capital held by an institution in relation to its risk-weighted assets.

Regulatory capital consists of Tier 1 capital and Tier 2 capital. The Group's capital base is all classified as Tier 1 capital and comprises share capital net of treasury shares, statutory reserve, share premium, accumulated deficit, current year loss and investment fair value reserve.

There have been no changes to the capital structures during the year.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may issue ordinary shares, buy back ordinary shares or adjust the amount of dividend payment to shareholders. No changes have been made in the objectives, policies and processes from the previous years.

The Group has adopted the "Standardised" approach for credit risk and market risk and "Basic Indicator" approach for operational risk for regulatory reporting purposes.

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

1.2 Basis of Consolidation for Accounting and Regulatory Purposes

For the purpose of preparation of consolidated financial statements, the Bank consolidates all subsidiaries which are fully owned or exercises significant control over them, except for the subsidiaries noted below (balances are as at 31 December 2017 as per the latest audited financial statements) which are booked at fair value of the investment held. The subsidiaries are consolidated from date of acquisition being the date on which the group obtains control and continues until the control ceases. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The principal subsidiaries not consolidated for regulatory purposes are as follows:

Subsidiaries	Country of Incorporation	Total Assets USD '000	Total Liabilities USD '000	Description
IB France Holding Company BSC (c)	Kingdom of Bahrain	4,764	102	Investment holding vehicle for property lease
IIB German Property Limited	Cayman islands	824	53	Investment holding vehicle for property lease
IIB Aircraft Lease SPC Limited	Cayman islands	67,245	57,442	Purchase and lease of aircraft to airline company

For the purpose of preparation of Regulatory Capital and the calculation of the Capital Adequacy Ratio, the Bank risk weights all unconsolidated assets including investments in subsidiaries and associates in accordance with the CBB Rulebook.

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1. REGULATORY CAPITAL (CONTINUED)

1.3 Composition of capital disclosure

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

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

	31 December 2017		
	Statement of financial position as in published financial statements (USD '000)	Statement of financial position as per regulatory reporting (USD '000)	Reference
Assets			
Cash and balances with banks	3,990	1,790	
Placements with financial institutions	2,123	2,123	
Investment securities	54,116	60,698	
Of which related to insignificant investments in financial entities under CET1		418	G
Of which related to significant investments in financial entities under CET1		-	
Of which related to other investments		60,280	
Assets acquired for leasing	65,116	9,803	
Assets held-for-sale			
Investment in real estate	11,883	4,202	
Equity-accounted investees	830	830	
Other assets	3,361	1,156	
Total assets	**141,419**	**80,602**	
Liabilities			
Financing liabilities	2,160		
Liabilities related to assets acquired for leasing	56,863		
Liabilities related to assets-held-for-sale			
Other liabilities	4,148	7,345	
Total liabilities	**63,171**	**7,345**	
Shareholders' Equity			
Share capital	109,996	109,996	A
Treasury Shares	(6,798)	(6,798)	B
Share Premium	19,645	26,603	C
Statutory reserve	6,980	5,588	D
Accumulated losses	(58,302)	(51,726)	F
Investment Fair Value Reserve	167	(10,406)	E
Equity attributable to shareholders of the Bank	**71,688**	**73,257**	
Non-controlling interests	6,560		
Total owners' equity	**78,248**	**73,257**	
Total liabilities and owners' equity	**141,419**	**80,602**	

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1. REGULATORY CAPITAL (CONTINUED)

Table – 2. Composition of regulatory capital

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

	31 December 2017		
	Components of regulatory capital (USD '000)	Amounts subject to pre-2015 treatment (USD '000)	Reference
Common Equity Tier 1 capital: instruments and reserves			
Directly issued qualifying common share capital plus related stock surplus	109,996		A
Retained earnings	(51,726)		F
Treasury shares	(6,798)		B
Share premium	26,603		C
Accumulated other comprehensive income (and other reserves)	(4,818)		=D+E
Common Equity Tier 1 capital before regulatory adjustments	**73,257**		
Common Equity Tier 1 capital: regulatory adjustments			
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	418	G
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-	
Regulatory adjustments applied to common equity Tier 1 in respect of amounts subject to pre-2015 treatment	-		
Total regulatory adjustments to Common equity Tier 1	-	418	
Common Equity Tier 1 capital (CET1)	**73,257**		
Additional Tier 1 capital (AT1)	**-**		
Tier 1 capital (T1 = CET1 + AT1)	**73,257**		
Tier 2 capital: instruments and provisions			
Provisions	-		
Tier 2 capital before regulatory adjustments	**-**		
Tier 2 capital (T2)	**-**		
Total capital (TC = T1 + T2)	**73,257**		
Risk weighted assets in respect of amounts subject to pre-2015 treatment	585		
Of which: Insignificant investments in the common shares of financial entities ←10% - Listed (RW at 100%)	85		
Of which: Insignificant investments in the common shares of financial entities ←10% - Unlisted (RW at 150%)	500		
Of which: Significant investment in the common shares of financial entities →10% (RW at 250%)	-		
Total risk weighted assets	**349,438**		
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets)	20.96%		
Tier 1 (as a percentage of risk weighted assets)	20.96%		
Total capital (as a percentage of risk weighted assets)	20.96%		
National minima including CBB (where different from Basel III)			
CBB Common Equity Tier 1 minimum ratio	6.50%		
CBB Tier 1 minimum ratio	8.00%		
CBB total capital minimum ratio	10.00%		
Capital Conservation Buffer (CCB)	2.50%		

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1. REGULATORY CAPITAL (CONTINUED)

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

1	**Issuer**	International Investment Bank BSC (c)
2	**Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)**	N/a
3	**Governing law(s) of the instrument**	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Equity shares
8	**Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)**	USD 109 Million
9	**Par value of instrument**	USD 1.0
10	**Accounting classification**	Shareholder's equity
11	**Original date of issuance**	4 October 2003
12	**Perpetual or dated**	Perpetual
13	Original maturity date	No maturity
14	**Issuer call subject to prior supervisory approval**	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	NA
23	**Convertible or non-convertible**	
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	**Write-down feature**	
31	If write-down, write-down trigger (s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	**Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)**	NA
36	**Non-compliant transitioned features**	NA
37	**If yes, specify non-compliant features**	NA

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1. REGULATORY CAPITAL (CONTINUED)

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

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

	31 December 2017	
	Risk Weighted Amount (USD '000)	Capital requirements (USD '000)
Type of Islamic financing contracts		
Murabaha	425	53
	425	**53**

	31 December 2017		
	On- & Off Balance Sheet Credit Exposures before CRM (USD '000)	Credit Risk Weighted Assets (USD '000)	Capital requirements (USD '000)
Cash items	2	-	-
Claim on banks	3,911	791	99
Investments in Equity Securities and Equity Sukuk	53,536	227,497	28,437
Holding of Real Estate	21,998	79,588	9,949
Other assets	1,155	1,155	144
	80,602	**309,031**	**38,629**

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

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

	31 December 2017 (USD '000)
Market Risk - Standardized Approach	
Price Risk	-
Equity Position Risk	-
Sukuk Risk	-
Foreign exchange risk	2,552
Commodities Risk	-
Total of market risk - standardized approach	**2,552**
Multiplier	12.5
Total Market Risk Weighted Exposures	**31,900**
Minimum capital requirement (12.5%)	**3,988**

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1. REGULATORY CAPITAL (CONTINUED)

			31 December 2017 (USD '000)
Indicators of operational risk			
Year	**2016**	**2015**	**2014**
Gross Income	(4,406)	(9,738)	**4,537**
Average gross income			**4,537**
Multiplier			**12.5**
			56,713
Eligible Portion for the purpose of the calculation			**15%**
Total operational Risk Weighted Exposures			**8,507**
Minimum capital requirement (12.5%)			**1,063**

1.4 Governance arrangements, systems and controls employed by the bank to ensure Shari'ah compliance (PD-1.3.10(cc))

To ensure compliance with Islamic Shari'ah principles, IIB's Shari'ah Review Department reviews the documentation relating to the Bank's day-to-day transactions, reviews policies and procedures and conducts regular departmental reviews. The Shari'ah Supervisory Board meets at least four times a year to review all investment products and business activities, approve the Bank's financial statements including meeting applicable AAOIFI standards and participate with management in the development of suitable investment products and services. IIB's Shari'ah Supervisory Board comprises three prominent Bahraini Islamic scholars who provide the Bank with pragmatic Islamic opinions.

In addition, further verification to ensure Shari'ah compliance is performed by IIB's Internal Audit function and by expert Shari'ah consultants who provide an annual external audit report on the Bank's operations. All parties have confirmed that the Bank continued to be Shari'ah-compliant throughout 2017.

1.5 Board Remuneration

The Directors receive an attendance fee of US$ 1,000 per meeting attended either in person or by tele-conference, together with the reimbursement of actual travel and accommodation expenses in connection with attending Board and Board Committee meetings. No retainer fees or remuneration were paid to the Directors during 2017.

1.6 Displaced Commercial Risk

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

The Bank does not have DCR as it does not have any profit sharing investment accounts (PSIAs).

1.7 Highly Leveraged Counterparties

The Bank assesses counterparties through financial and non-financial due diligence and uses CBB's definition of Highly Leveraged Counterparties to determine exposure to them. The Bank does not have exposures to any Highly Leveraged Counterparties.

1.8 Past Due and Impaired Islamic Financing

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

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

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1. REGULATORY CAPITAL (CONTINUED)

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

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

As of 31 December 2017, the bank has one impaired, past due Islamic financing, which is fully provided.

1.9 PD 6.1.1 Change in auditors during the year

Following the change during 2016, the Board and Management have decided not to rotate the external auditors during the year ended 31 December 2017.

1.10 Recourse Transactions

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

1.11 Restructuring of Credit Facilities

No facilities were restructured during the year 2017.

1.12 Liquidity ratios (PD-1.3.37)

The following table summarizes the liquidity ratios as of:

	31 December 2017
Liquid assets to total assets	**6.96%**
Short term assets to short term liabilities	**283.01%**

Formula is as follows:

Liquid Assets to total assets = (Cash and bank balances + due from financial institutions + Quoted sukuks+Quoted Inv)/total assets

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

1.13.1 Equity price risk management

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2017, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus USD 187 thousand (31 December 2016: USD 236 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

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

An assessment is made at each year-end to determine whether there is any objective evidence that equity investments may be impaired. Any impairment for significant and prolonged decline in the value of investments is reflected as a write down of investments. Any subsequent increase in their fair value is recognized directly in equity.

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1. REGULATORY CAPITAL (CONTINUED)

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

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

	Total gross exposure (USD '000)	gross exposure over the period (USD '000)	Publicly Traded (USD '000)	Privately held (USD '000)	Capital requirement (USD '000)
Fair value through income statement	**42,092**	**40,462**	**-**	**42,092**	**5,262**
Fair value through equity	**12,024**	**13,542**	**3,730**	**8,294**	**1,503**
Investment in equity-accounted investees	**830**	**830**	**-**	**830**	**104**
	54,946	**54,833**	**3,730**	**51,216**	**6,868**

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

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

The following table summarizes the cumulative realized losses during the year ended:

	31 December 2017 USD ('000)
Realized net loss arising from sale of investment securities	(217)

1.15 Rate of return risk management

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities:

Table – 15. Rate of Return Risk

31 December 2017	Up to 3 Months (USD '000)	3 months to 1 year (USD '000)	1 to 5 years (USD '000)	Above 5 Years (USD '000)	Total (USD '000)		
Assets							
Placements with financial institutions	2,123	-	-	-	**2,123**		
Total profit rate sensitive assets	**2,123**	**-**	**-**	**-**	**2,123**		
Liabilities							
Financing liabilities	-	-	2,160	-	2,160		
Liabilities related to assets acquired for leasing	1,726	5,178	27,616	22,343	56,863		
Total profit rate sensitive liabilities	**1,726**	**5,178**	**29,776**	**22,343**	**59,023**	**31-Dec-17**	**31-Dec-16**
Profit rate sensitivity gap	**397**	**(5,178)**	**(29,776)**	**(22,343)**	**(56,900)**	**42.46**	**168.10**

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by USD 1,138 thousand (31 December 2016: USD 1,192 thousand).

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1. REGULATORY CAPITAL (CONTINUED)

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

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

1.16 Counterparty Credit Risk

1.16.1 Introduction

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

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

1.16.2 Credit Limit Structure

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

1.16.3 Reporting

The Group reports large counterparty exposures to CBB and senior management on periodic basis. The Group reports the exposures on a gross basis without any offset.

1.16.4 Early warning indicators

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

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2 CAPITAL STRUCTURE

2.1 Capital Base

The Bank's capital base comprises of Tier 1 capital which includes nominal share capital, share premium, statutory reserve, accumulated deficit, current year net loss, unrealised gross losses arising from fair valuing equity securities less the cost of treasury shares, plus Tier 2 capital which consists of part of the unrealised gains arising from fair valuing equities less the aggregate amounts that exceed the regulatory large exposures limit.

The issued and paid up share capital of the Bank as at 31 December 2017 and 31 December 2016 was US$ 109,996 thousand comprising of 109,996 thousand shares of US$ 1 each.

The Bank's regulatory capital base of US$ 73.3 million as at 31 December 2017 (31 December 2016: US$ 103.2 million) comprised Tier 1 capital of US$ 73.3 million (31 December 2016: US$ 103.2 million) and Tier 2 capital of nil million (31 December 2016: nil) as disclosed in note 27 of the annual consolidated financial statements.

There have been no changes to the capital structures during the year.

There are no restrictions in distributing profits by the subsidiaries of the Bank. However, such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital.

2.2 Capital Adequacy

The purpose of capital management is to ensure the efficient utilization of capital in relation to business requirements and growth, risk profile and shareholders' returns. But the primary concern is capital protection from loss.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may issue ordinary shares, buy back ordinary shares or adjust the amount of dividend payment to shareholders. No changes have been made in the objectives, policies and processes from the previous years.

As compared to the minimum capital adequacy ratio ("CAR") of 12.5% prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at 31 December 2017 was 20.96% (2016: 25.42%).

The ratio is derived from guidelines issued by CBB which are compatible with the "Basel III" Accord issued by the Basel Committee on Banking Supervision. The CAR measures total qualifying capital held by an institution in relation to its risk-weighted assets. In common with other banks incorporated in Bahrain, the Bank commenced the ongoing measurement of its capital adequacy under the "Basel III" rules from 1 January 2015.

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2 CAPITAL STRUCTURE (CONTINUED)
2.3 Profile of Risk-weighted Assets and Capital Charge
The Bank has adopted the "Standardised" approach for credit risk and market risk and "Basic Indicator" approach for operational risk for regulatory reporting purposes. IIB's risk-weighted capital requirement for credit, market and operational risks as at 31 December 2017 are as follows:

2.4 Credit risk weighted assets
The descriptions of the counterparty classes along with the risk weights to be used to derive the risk weighted assets are:

Cash and balances with banks and due from financial institutions

Cash has a nil risk weighting. Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies but short term claims on locally incorporated banks (whether rated or unrated) are assigned a risk weighting of 20% where such claims have an original maturity of three months or less and are denominated and funded in either Bahraini Dinars or US Dollars. Claims on banks outside Bahrain with a credit rating of A+ to A- are assigned a 50% risk weighting.

Receivables

Receivables have a risk weighting of 100%. These include funding provided to an unrated entity on a corporate murabaha basis that is repayable within 12 months.

Investments including assets held for sale and investment in associate

Investments listed on a recognised stock exchange attract a risk weighting of 100%. Unlisted investments have a 150% risk weighting, holdings of real estate (owned directly) are assigned a risk weighting of 200% and holdings of real estate through investment in unlisted real estate companies have a risk weighting of 400%. Individual exposures exceeding 15% of regulatory capital attract a risk weighting of 800%.

Credit exposure and risk weighted assets considered for capital adequacy ratio calculations comprising of banking book exposures are as follows:

As at 31 December 2017

	Gross credit exposure US$ '000	Credit risk weighted assets US$ '000	Capital requirement US$ '000
Claims on banks - murabaha placements	**3,911**	**790**	**99**
Equity investments - publicly held	**3,730**	**3,730**	**466**
Equity investments - privately held	**15,883**	**23,825**	**2,978**
Equity investments - with excess amount over 15%	**22,932**	**183,456**	**22,932**
Investments in unrated funds-unlisted	**10,991**	**16,487**	**2,061**
Holding of real estate	**21,998**	**79,588**	**9,949**
Other assets	**1,155**	**1,155**	**144**
	80,600	309,031	38,629

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2 CAPITAL STRUCTURE (CONTINUED)

1.4 Credit risk weighted assets (continued)

As at 31 December 2016

	Gross credit exposure US$ '000	Credit risk weighted assets US$ '000	Capital requirement US$ '000
Claims on Sovereigns	9,966	-	0
Claims on banks - murabaha placements	9,301	1,871	234
Due from investee companies - murabaha	1,938	1,938	242
Equity investments - publicly held	4,724	4,724	591
Equity investments - privately held	18,315	27,473	3,434
Equity investments - with excess amount over 15%	18,772	150,176	18,772
Investments in unrated funds-unlisted	15,487	23,231	2,904
Holding of real estate	41,591	157,959	19,745
Other assets	757	755	94
	120,851	368,127	46,016

The gross credit exposure is all funded exposure and is entirely funded by capital. The Bank holds no cash collateral or eligible guarantees to mitigate credit risk. Since the period end position is representative of the risk positions of the Bank during the year, average gross exposures are not disclosed separately.

The Bank holds all its investments with the expectation of capital gains. The realised gains net of losses arising from investment sales or liquidations or buy back of shares by investee companies during the year ended 31 December 2017 were net loss US$ 0.22 million (2016: net gain US$ 0.91 million). The total net unrealised losses recognised in equity in 2017 aggregated to US$ 0.70 million (2016: US$ 2.10 million).

Risk concentrations of the maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the balance sheet components. There is no unfunded exposure and no significant use of master netting and collateral agreements.

	Gross credit exposure 31-Dec 2017 US$ '000	**Average Gross credit exposure 31-Dec 2017 US$ '000**	Gross credit exposure 31-Dec 2016 US$ '000
Credit risk			
Placements with financial institutions	**2,123**	4,340	8,406
Murabaha with corporates	**-**	-	513
Musharaka financing	**-**	-	25,144
Investments securities	**66,829**	66,234	71,637
Assets acquired for leasing	**65,116**	66,428	68,614
Assets held for sale	**-**	10,211	20,421
Other assets	**7,351**	5,130	4,681
Total Credit Risk Exposure	**141,419**	**152,342**	**199,416**

The above disclosure is considered to be reasonably representative of the level of credit risk of the Bank during the year, as there has been no significant fluctuation in the credit risk assets during the year ended 31 December 2017.

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2 CAPITAL STRUCTURE (CONTINUED)

2.4.1 Distribution of the gross funded exposures

(a) Geographical distribution of the gross funded exposures

The following table summarises the geographical distribution of exposure broken down into significant areas by major types of credit exposure:

As 31 December 2017

	Cash & Placements with financial institutions US$ '000	Investment in real estate US$ '000	Invest-ments Securities US$ '000	Musharaka financing US$ '000	Assets acquired for leasing US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:							
Bahrain	**6,105**	**4,202**	**1,133**	**-**	**-**	**354**	**11,794**
Europe	**-**	**7,681**	**85**	**-**	**65,116**	**2,999**	**75,881**
North America	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other GCC	**7**	**-**	**23,532**	**-**	**-**	**9**	**23,548**
Africa	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Asia	**-**	**-**	**30,196**	**-**	**-**	**-**	**30,196**
	6,112	**11,883**	**54,946**	**-**	**65,116**	**3,362**	**141,419**

As at 31 December 2016

	Placements with financial institutions US$ '000	Investment in real estate US$ '000	Invest-ments Securities US$ '000	Musharaka financing US$ '000	Assets acquired for leasing US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:							
Bahrain	11,592	4,202	11,400	-	-	511	27,705
Europe	-	18,957	208	-	68,614	2,734	90,513
North America	-	-	-	25,144	-	513	25,657
Other GCC countries	7	-	31,864	-	-	(66)	31,805
Africa	-	-	-	-	-	-	-
Asia	-	-	23,963	-	-	-	23,963
	11,599	23,159	67,435	25,144	68,614	3,692	199,643

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2 CAPITAL STRUCTURE (CONTINUED)

2.4.1 Distribution of the gross funded exposures

The following table summarises the industrial distribution of funded exposure broken down by major types of credit exposures:

As at 31 December 2017

	Placement with financial institutions US$ '000	**Balances with bank US$ '000**	**Investments US$ '000**	**Musharaka financing US$ '000**	**Assets acquired for leasing US$ '000**	**Other assets US$ '000**	**Total US$ '000**
Industry sector:							
Real estate	**-**	**592**	**54,630**	**-**	**-**	**2,058**	**57,280**
Banking and							
finance	**2,123**	**3,396**	**418**	**-**	**-**	**-**	**5,937**
Manufacturing	**-**	**-**	**5,300**	**-**	**-**	**-**	**5,300**
Transportation	**-**	**-**	**-**	**-**	**65,116**	**961**	**66,077**
Others	**-**	**2**	**6,481**	**-**	**-**	**342**	**6,825**
	2,123	**3,990**	**66,829**	**-**	**65,116**	**3,361**	**141,419**

As at 31 December 2016

	Placement with financial institutions US$ '000	Balances with bank US$ '000	Investments US$ '000	Musharaka financing US$ '000	Assets acquired for leasing US$ '000	Other assets US$ '000	Total US$ '000
Industry sector:							
Real estate	-	629	63,425	25,144	-	2,035	91,233
Banking and							
finance	8,406	2,562	10,299	-	-	208	21,475
Manufacturing	-	-	6,472	-	-	1	6,473
Transportation	-	-	-	-	68,614	1,094	69,708
Others	-	2	10,397	-	-	355	10,754
	8,406	3,193	90,593	25,144	68,614	3,693	199,643

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2 CAPITAL STRUCTURE (CONTINUED)

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base.

The Bank's exposure in excess of 15% of the obligor limit to individual counterparties based on regulatory "total available capital" at 31 December

	Dec-2017			Dec-2016		
	C.A.R Limit (15%) US$ '000	On balance sheet exposure US$ '000	Capital deduction US$ '000	C.A.R Limit (15%) US$ '000	On balance sheet exposure US$ '000	Capital deduction US$ '000
Counterparty A	10,989	28,240	(17,251)	15,487	25,664	(10,177)
Counterparty B	10,989	14,553	(3,564)	15,487	23,630	(8,143)
			(20,815)			(18,320)

Capital deduction is equally deducted from Tier 1 and Tier 2.
There were no off-balance sheet exposures (2015: nil).

The table below shows past due and individually impaired financial assets:

As at 31 December 2017:

	Neither past due nor impaired US$ '000	Past due but not impaired US$ '000	Past due & individually impaired US$ '000	Total US$ '000
Balances with banks	3,990	-	-	3,990
Placements with financial institutions	2,123	-	-	2,123
Other assets	2,069	-	-	2,069
	8,182	-	-	8,182

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2 CAPITAL STRUCTURE (CONTINUED)

2.4 Credit risk weighted assets (continued)

2.4.2 Single counterparty exposures

As at 31 December 2016:

	Neither past due nor impaired US$ '000	Past due but not impaired US$ '000	Past due & individually impaired US$ '000	Total US$ '000
Balances with banks	3,193	-	-	3,193
Due from financial institutions	8,406	-	-	8,406
Investments	9,966	-	-	9,966
Musharaka	25,144	-	-	25,144
Other assets	2,218	-	(66)	2,152
	48,927	-	(66)	48,861

Past due and individually impaired are overdues of more than 1 year but less than 3 years.

2.5 Market risk weighted assets

The Bank's capital charge in respect of market risk in accordance with the Standardized Approach is as follows:

	Dec-2017		Dec-2016	
	Risk weighted assets US$ '000	**Period end capital requirement US$ '000**	Risk weighted assets US$ '000	Period end capital requirement US$ '000
Foreign exchange risk	**31,900**	**2,552**	25,125	2,010

	Dec-2017 (USD '000)	Maximum (USD '000)	Minimum (USD '000)
Market Risk - Standardised Approach			
Price Risk	-	-	-
Equity Position Risk	-	-	-
Foreign exchange risk	**2,552**	**2,552**	**2,064**
Total of market risk - standardised approach	**2,552**	**2,552**	**2,064**
Multiplier	**12.5**	**12.5**	**12.5**
Total Market Risk Weighted Exposures	**31,900**	**31,900**	**25,800**
Minimum capital requirement (12.5%)	**3,988**	**3,988**	**3,225**

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2 CAPITAL STRUCTURE (CONTINUED)

2.5 Market risk weighted assets (continued)

Positions are monitored on a quarterly basis to ensure they are maintained within established limits. The Bank's exposure in foreign currencies consists of exposures from banking activities, as it does not have a trading book in foreign currencies.

	2017 Assets/ liabilities net US$ '000	2016 Assets/ liabilities net US$ '000
Euro	**31,866**	24,940
Pound Sterling	**34**	185
Market risk weighted exposure	**31,900**	25,125

2.6 Operational risk

In accordance with the Basic Indicator approach methodology, operational risk and related capital requirements are as follows

	Gross income		
	2014 US$ '000	2015 US$ '000	2016 US$ '000
Total gross income	4,537	-9,738	-4,406

	2017 US$ '000	2016 US$ '000
Indicator of operational risk		
Average gross income multiply by number of years	**4,537**	7,839
Eligible portion for the purpose of calculation	**15%**	15%
Multiplier	**12.5**	12.5
Operational risk weighted exposure	**8,507**	14,698
Capital requirement (12.5%)	**1,063**	1,837

The operational risk has been calculated by the Bank by considering the total gross income of the years in which it has earned gross profits.

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3 RISK MANAGEMENT

The Board of Directors is charged with the overall responsibility for risk management. It approves and periodically reviews the risk policies and strategy of the Bank. It is assisted by the Executive Committee, Management Committee, Investment Committee and Audit & Corporate Governance Committee.

The Risk Management Committee has the overall responsibility for establishing the risk framework and strategy, principles, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Bank. It ensures that risks do not exceed the approved limits. The Risk Management Department also carries out internal capital adequacy assessments to determine the adequacy of overall capital in relation to the Bank's risk profile and formulates the strategy for maintaining the capital levels. The capital provides the Bank with a cushion to absorb losses without endangering client funds.

The various risks to which the Bank is exposed and the principal risk management techniques are summarized below. Further information on risk management is contained in Note 21 to the annual consolidated financial statements.

3.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The principle business of the Bank is Investment Banking. The process of managing the credit risk starts at the origination of the investment activity and compliance with investment criteria, guidelines and policies. The Bank manages credit risk by setting limits for individual counterparties, countries, regions and industry sectors. Limits are authorized by the Board of Directors based on management's recommendations, monitored by the Risk Management Department and reviewed regularly by the Risk Management Committee. Details of maximum exposure to credit risk by balance sheet components, geographical region, industry sector and credit rating are contained in note 21 (a) to the annual consolidated financial statements in accordance with the requirements of International Financial Reporting Standard (IFRS) 7.

Information disclosed in the annual report in respect of geographical region, industry sector and credit rating is prepared in accordance with the requirement of Prudential Information Report for Islamic Banks as at 31 December 2017. The disclosures are considered to be reasonably representative of the position during 2017 as there has been no significant fluctuation in the level of credit risk assets.

3.1.1 Credit risk concentrations and thresholds

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base. Individual exposures are described at Capital Structure section 2.4.2.

3.1.2 Excessive risk concentration

Bank policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio.

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3 RISK MANAGEMENT (CONTINUED)

3.1 Credit Risk (continued)

3.1.3 Geographical distribution of exposures

The geographical distribution of exposures, impaired assets and the related impairment provisions are analyzed as follows:

	31 December 2017			31 December 2016		
	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Geographical region:						
Bahrain	2,782	2,782	2,223	11,812	1,846	2,223
Europe	3,120	3,120	1,695	3,326	3,326	1,695
North America	25,657	25,657	25,657	25,657	513	-
Other GCC countries	46,794	45,887	34,788	46,794	45,887	34,787
Africa	-	-	-	-	-	-
Asia	4,659	4,659	4,325	4,659	4,659	4,325
	83,012	82,105	68,688	92,248	56,230	43,030

The impaired security is reflected at fair value based on the relevant fair value as at 31 December 2017. The criteria used to allocate exposures to particular geographical areas is the country to which the funds were transferred.

3.1.4 Industrial sector analysis of the exposures

The industrial sector analysis of exposures, impaired assets and the related impairment provisions is as follows:

	31 December 2017			31 December 2016		
	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Industry sector:						
Real estate-development	47,045	46,138	37,548	47,045	20,994	11,890
Banking and						
financial institutions	5,009	5,009	4,746	15,181	5,216	4,746
Manufacturing	30,958	30,958	26,393	30,022	30,021	26,394
	83,012	82,105	68,687	92,248	56,231	43,030

The Bank has no unfunded exposures as at 31 December 2017.

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3 RISK MANAGEMENT (CONTINUED)

3.1 Credit Risk (continued)

3.1.5 Large exposures

The Bank follows the CBB's guidelines with respect to definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

The following are the large exposures of US$ 1,000,000 and over as of 31 December 2017:

Banks	Large exposure (banks) US$ '000	% of exposure to equity	Non-banks	Large exposure (non-banks) US$ '000	% of exposure to equity	Regulatory capital
Bank A	4,815	6.57%	Counterparty A	29,873	40.78%	73,257
			Counterparty B	9,973	13.61%	
			Counterparty C	9,249	12.63%	
			Counterparty D	9,187	12.54%	
			Counterparty E	6,481	8.85%	
			Counterparty F	4,202	5.74%	
			Counterparty G	3,645	4.98%	

3.1.6 Exposure by external credit rating

The Bank uses ratings issued by Standard & Poor's, Moody's, Capital Intelligence and Fitch to derive the risk weightings under the CBB's Basel III capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes. The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures:

	31 December 2017			31 December 2016		
	Gross credit exposure US$ '000	**Rated exposure US$ '000**	**Unrated exposure US$ '000**	Gross credit exposure US$ '000	Rated exposure US$ '000	Unrated exposure US$ '000
Cash and claims						
on banks	**6,111**	**1,296**	**4,815**	11,599	2,289	9,310
Equity portfolio	**66,829**	**-**	**66,829**	90,593	9,966	80,627
Other exposures	**2,069**	**-**	**2,069**	27,362	-	27,362
	75,009	**1,296**	**73,713**	**129,554**	**12,255**	**117,299**

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3 RISK MANAGEMENT (CONTINUED)

3.1 Credit Risk (continued)

3.1.7 Intra-group transactions including exposures to related parties

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are on an arm's length basis and are identical to those applicable to transactions with all other parties.

Exposures to related parties:

	2017 Gross credit exposure US$ '000	2016 Gross credit exposure US$ '000
Claims on associates	**4,179**	4,179
Claims on investee companies	**2,070**	1,872
	6,249	6,051

3.1.8 Impairment of assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Evidence of impairment may include indications that the investee company is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Impairment is determined as follows:

a) for assets carried at amortised cost, impairment is based on the present value of estimated future cash flows discounted at the original effective profit rate;

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

c) for assets carried at cost, impairment is based on the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

3.1.9 Impairment losses on financial assets

On a quarterly basis, the Bank assesses whether any provision for impairment should be recorded in the statement of income. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ resulting in future changes in such provisions.

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3 RISK MANAGEMENT (CONTINUED)

3.1 Credit Risk (continued)

3.2 Liquidity Risk And Funding Management

Liquidity risk is the risk that the Group will be unable to meet its obligations associated with financial liabilities. The Assets & Liabilities Committee (ALCO) monitors future cash flows and liquidity required for working capital and investment acquisition. The Bank's investments generally have a long-term maturity and hence, as a matter of policy, the long-term investments are funded from IIB's own capital. The Bank maintains moderate cash and cash equivalent balances and also has limited access to geographically diversified funding sources, although no deposit liabilities or long-term funding by external counterparties were booked during 2017. The ratio of liquid assets (defined as cash, balances with banks, due from financial institutions, sukuks and quoted investments) to total assets at 31 December 2017 is 6.96% (2016: 12.87%). Details of liquidity risk and funding management are contained in Note 21 b) to the annual consolidated financial statements.

The table below shows an analysis of financial assets and liabilities as at 31 December 2017 analysed according to when they are expected to be recovered or settled.

	Up to 3 months US$ '000	3 months to 1 year US$ '000	Total up to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	Not stated maturity US$ '000	Total US$ '000
ASSETS							
Cash and balances with banks	3,990	-	3,990	-	-	-	**3,990**
Placements with financial institutions	2,123	-	2,123	-	-	-	**2,123**
Investment securities	-	-	-	54,116	-	-	**54,116**
Assets acquired for leasing	-	-	-	-	-	65,116	**65,116**
Investment in real estate	-	-	-	11,883	-	-	**11,883**
Musharaka financing	-	-	-	-	-	-	**-**
Equity-accounted investees	-	-	-	830	-	-	**830**
Other assets	375	1,728	2,103	543	590	125	**3,361**
Total assets	**6,488**	**1,728**	**8,216**	**67,372**	**590**	**65,241**	**141,419**
LIABILITIES							
Financing liabilities			-	2,160	-	-	**2,160**
Liabilities related to assets acquired for leasing	-	-	-	-	-	56,863	**56,863**
Other liabilities	1,441	481	1,922	2,226	-	-	**4,148**
Total liabilities	**1,441**	**481**	**1,922**	**4,386**	**-**	**56,863**	**63,171**
Commitments	11	33	44	-	-	-	**44**
Net gap	**5,036**	**1,214**	**6,250**	**62,986**	**590**	**8,378**	**78,204**

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3 RISK MANAGEMENT (CONTINUED)

3.2 Liquidity Risk And Funding Management (continued)

The table below shows an analysis of financial assets and liabilities as at 31 December 2016 analysed according to when they are expected to be recovered or settled.

	Up to 3 months US$ '000	3 months to 1 year US$ '000	Total up to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	Not stated maturity US$ '000	Total US$ '000
ASSETS							
Cash and balances							
with banks	3,193	-	3,193	-	-	-	**3,193**
Placements with							
financial institutions	8,406	-	8,406	-	-	-	**8,406**
Investment securities	-	4,979	4,979	56,639	4,987	-	**66,605**
Assets acquired							
for leasing	-	-	-	-	68,614	-	**68,614**
Investment in							
real estate	-	-	-	23,158	-	-	**23,158**
Musharaka financing	-	-	-	-	25,144	-	**25,144**
Equity-accounted							
investees	-	-	-	830	-	-	**830**
Other assets	348	109	457	1,848	1,207	181	**3,693**
Total assets	**11,947**	**5,088**	**17,035**	**82,475**	**99,952**	**181**	**199,643**
LIABILITIES							
Financing liabilities	-	187	187	17,022	-	-	**17,209**
Liabilities related to							
assets acquired							
for leasing	-	-	-	-	-	60,760	**60,760**
Other liabilities	1,321	188	1,509	8,796	-	-	**10,305**
Total liabilities	**1,321**	**375**	**1,696**	**25,818**	**-**	**60,760**	**88,274**
Commitments	**53**	**160**	**213**	**44**	**-**	**-**	**257**
Net gap	**10,573**	**4,553**	**15,126**	**56,613**	**99,952**	**(60,579)**	**111,112**

3.3 Market Risk

Market risk is the risk to earnings resulting from adverse movements in foreign currency rates, profit rate yield curves and equity prices. The Bank has no significant concentration of market risk and does not have a significant trading portfolio of equities or foreign currencies. It is exposed to market risk from currency rate fluctuations on its foreign currency denominated assets and liabilities.

To enable effective monitoring and managing of exposures, all market risks associated with the Bank's investments are managed and monitored using basic sensitivity analyses reflecting such factors as volatility, liquidity and concentration. The investments in unquoted equities, comprising the Bank's retentions in its investment offerings and selective participations in private placements, are generally illiquid without a ready market to effect an exit.

Note 21 c) to the annual consolidated financial statements details the Bank's exposure to equity price risk, foreign currency risk and profit rate risk.

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3 RISK MANAGEMENT (CONTINUED)

3.4 Operational Risk

Operational Risk is the risk of direct or indirect loss resulting from breaches in internal controls, processing errors, inadequate information systems, fraud, or external events. Its impact can be in the form of a financial loss, loss of reputation or loss of competitive position. Operational risk is inherent in all business activities and can never be eliminated entirely but can only be mitigated or minimized. The Bank minimizes its exposure to such risk by ensuring that appropriate management control mechanisms, infrastructure, systems, internal controls and human resources are in place. IIB has developed an operational risk framework, reviewed by experienced external consultants, that provides for identification, measurement, monitoring and control of potential risk events. A number of processes are used throughout the Bank including risk and control self-assessments, key risk indicators (KRIs), event management, new product review / approval procedures and business continuity plans.

In addition, Internal Audit Department issues regular reports including an annual organization-wide risk assessment and the external auditors make recommendations on internal controls and processes. Business units are responsible for managing the operational risks relevant to their activities, supported by a disaster recovery program covering computer backup, data recovery and business continuity.

Head of Risk Management maintains a risk register for capturing loss event data and events. On a quarterly basis matters logged are discussed with the departmental heads. During the current year no significant loss events occurred.

3.5 Legal Risk

Legal Risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. It has professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal and Compliance Departments or external legal counsel. The Bank fully complied with all applicable laws and regulations during the year ended 31 December 2017 except it incurred a penalty of US$ 5 thousand from the CBB for the late publishing of one quarter's results.

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4 INVESTMENT IN SUBSIDIARIES

The Bank has the following subsidiaries, namely:

Name of the subsidiary	Located in	Currency		31-Dec 2017	31-Dec 2016
Istethmary Al Fareeda	Kingdom	SAR	Net assets	**38,990,984**	44,479,042
Company B.S.C. (c)	of Bahrain	SAR	Net loss	**(5,493,528)**	(27,129,084)
Istethmary Sarajevo	Cayman	EURO	Net assets	**24,770,000**	22,360,000
City Centre	Islands	EURO	Net profit	**2,403,000**	431,000
Bahrain Bunny Shares and	Kingdom	SAR	Net assets	**24,316,219**	35,288,729
Securities W.L.L.	of Bahrain	SAR	Net (loss) profit	**(13,912,510)**	6,328,295
Multifamily Residential	Cayman	USD	Net assets	**(53,976)**	8,752,402
Ltd-I ("MR-I")	Islands	USD	Net loss	**(9,335,001)**	(17,892)
Multifamily Residential	Cayman	USD	Net assets	**(55,999)**	16,293,703
Ltd-II ("MR-II")	Islands	USD	Net loss	**(17,331,487)**	(20,707)
IIB Aircraft Lease	Cayman	USD	Net assets	**9,804,000**	10,094,308
SPC Limited	Islands	USD	Net profit	**1,223,000**	995,831
IIB France Investments	Kingdom	EUR	Net assets	**3,883,939**	2,272,875
Holding	of Bahrain	EUR	Net loss	**(5,388)**	(35,412)
IIB German	Cayman	EUR	Net assets	**641,618**	913,686
Properties Co.	Islands	EUR	Net loss	**(24,444)**	(5,031)

The Bank is not exposed to currency risk in the case of investment in Istethmary Al Fareeda Company B.S.C. (c), Bahrain Bunny Shares and Securities W.L.L, MR-I, MR-II, IIB Aircraft Lease I Limited and IIB Aircraft Lease 2 Limited as these are denominated in SAR and USD.

The effect of 10% change in foreign exchange rate on the Bank's statement of equity in respect of Istethmary Sarajevo City Centre amounts to US$ 2,973 thousand (2016: US$ 2,236 thousand) and on the Bank's statement of income amounts to US$ 271 thousand (2016: US$ 43 thousand), which has also been included in sensitivity analysis shown in note 21 c) to the annual consolidated financial statements. In 2016 IIB France Investments and IIB German Properties became subsidiaries of the Bank. The effect of 10% change in foreign exchange rate on the Bank's statement of equity in respect of these two subsidiaries amounts to US$ 466 thousand (2016: US$ 227 thouand) and US$ 77 thousand (2016: US$ 91 thousand) respectively and on the Bank's statement of income amounts to US$ 1 thousand (2016: US$ 4 thousand) and US$ 3 thousand (2016: US$ 1 thousand) respectively.

The Bank does not make use of any foreign currency hedges to hedge against the movement in foreign exchange rates of investment in foreign subsidiaries.