

ANNUAL REPORT

BAB

جمعية مصارف البحرين
Bahrain Association
of Banks

2017

Serving you for over 40 Years



Section	Content
01	BAB Profile Statement
02	Chairman's Message
03	CEO's Message
04	Overview of Economic, Financial and Banking Developments in Bahrain in 2017
05	BAB's Achievements, Activities in 2017 and Plans for 2018
06	Board of Directors
07	BAB Team
08	Financial Statements
09	Member Banks list

The Bahrain Association of Banks (BAB) was established by a Ministerial decree in 1979, and registered under the central Bank of Bahrain in 2010. BAB brings together banking institutions of all sizes and charters in the kingdom of Bahrain and works towards enhancing Bahrain image as the financial hub of the Middle East.

Bahrain banks represents \$189 billion (Sep 2017) in total assets and employ over 14,199 (2016) men and women and contributes 16.1% (2017) towards Bahrain's \$32.2 (2017) billion GDP.

The Association provides an open forum where banks can come together to collectively discuss and solve their shared problems. BAB is also actively engaged in promoting banking conferences, exhibitions and seminars that bring overseas banking delegations to Bahrain and create business opportunities for all members.





Peace, mercy and blessings of God,
I would like to welcome all of you to this edition of our Annual Report wishing you all prosperity and success during 2018. I am pleased to highlighted here our achievements in the first year of the current 3-year term of the new Board of Directors of BAB.

I like to emphasize at the outset that BAB and banking sectors successes during 2017 were achieved amid supportive local economic environment. According to the EDB report, growth in the non-oil sector of Bahrain's economy reached an annual pace of 4.7% in the first half of 2017, ahead of the 4.0% non-oil growth recorded during 2016 as a whole. The robust Strong non-oil growth figures were almost entirely due to activity in the private sector, underscoring the strength of structural and countercyclical growth drivers in the Bahraini economy.

This positive momentum at a time of fiscal consolidation and minimal oil output growth underscores the dynamism of the Kingdom's economy (please refer to economic and financial review report in a separate section in this report).

Non-oil growth in the first half of 2017 was broad-based with particularly strong momentum observed in sectors such as Hotels & Restaurants, Social & Personal Services and Financial Services, which all expanded more than 7% year-on-year in the period. Additionally, the Transportation & Communications and Real Estate & Business Activities sectors all posted solid figures.

Overall real economic growth in the Kingdom reached an annual pace of 3.4% for the first half of the year, which marked a small further improvement over the 3.2% pace of growth posted during 2016 as a whole.

It is interesting to note that the Banking and Financial sector ranked among the first three sectors in terms of highest growth rate recorded, with a rate of growth of more than

7%, achieving a total contribution to the gross domestic product of 17%. The aggregate value of the banking facilities granted to economic and personal activities reached BD 8.4 billion by the end of September 2017, registering an increase of 4.8%, when compared to the end of September 2016. A strong indicator of the strength of the banking sector in Bahrain is the rise of the profits of the commercial banks listed in the Bahrain Stock Exchange, by 8% during the first nine months of 2017 to US\$793 million, compared with US\$735 million during the same period in 2016.

In recognition of its instrumental role in leading the banking sector in the Kingdom of Bahrain, and in order to further support its growth and solvency, **BAB during 2017 initiated an ambitious business plan to implement its strategy, which is based on the three pillars:** First, working in close with the Central Bank of Bahrain, Economic Development Board and other relevant official bodies to provide more supportive regulatory and operational environment for the banking sector and to solve together any obstacles facing it.

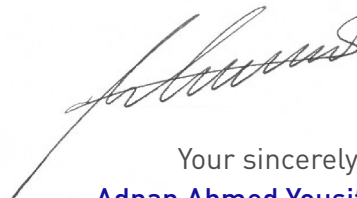
The nine permanent committees established during the year together with lobbying proved to be proper channels to embody facilitate these efforts, side by side with the direct meeting with the officials in these bodies.

Second, **engaging in the studies, research and reports that opened up new horizons for the financial and banking sector and at the same time promoting Bahrain as a financial hub regionally and internationally.** Within this strategy, website, publications and newsletters of BAB were enriched to reflect the efforts carried out by the Association. Third, organization of and participation in local, regional and international events and conferences, which provide added value for not only for the Banks but also for the Kingdom of Bahrain. The successful annual reception ceremony for Bahraini banks, which was organized during the annual meetings of the International Monetary Fund and the World Bank in Washington in October 2017, is the flagship event in this strategy.

We intend, during 2018, to activate the permanent committees of the Association through the development of their internal regulations and programs to give deeper and

more comprehensive institutional dimension for the activities and functions of the Association and allow for greater participation from all members of the Association.

Finally, we must record here with full of pride and appreciation, the unlimited support provided by the Central Bank of Bahrain for the banking and financial sector, and the Association as well, where this support is regarded as the cornerstone of the success of its functions and role at all levels.



Your sincerely,
Adnan Ahmed Yousif



First, I like to highlight the fact that the close coordination and cooperation between the management of the Association and its Board of Directors and members was and will remain the cornerstone in our successes that were recorded in 2017. Not less important is the priceless support of both the Central Bank of Bahrain and the Economic Development Board and other concerned bodies for the strategies of BAB. For all of them, we like to extend our gratitude and appreciation.

Our business plan during 2017 was focused on enhancing and strengthening the representation of BAB for the banking sector in the Kingdom of Bahrain and to advocate the interests of banks. Many initiatives were implemented within the strategies of the Association, especially with regards to lobbying and establishing permanent committees and the Advisory Board, which have undertaken the different tasks and issues related to banking sector such as international standards, new international regulations, BIBOR,

Islamic banking, product development, HR, IT and social responsibility. The Management of BAB put a lot of efforts to organize and to follow up the meetings and activities of these committees and provide all facilities to them. The outcome of these committees' works is very constructive and positive.

In addition, we extended our efforts to build more proactive relations with concerned official bodies, especially the Central Bank of Bahrain. Many joint meeting and activities with the Bank were organized and cover important issues related to banking sector. Our cooperation with Economic Development Board was fruitful and resulted in joint programs focusing on promoting financial services sector in Bahrain as an attractive destination for foreign investments. We also initiated communications with Shura Council and important ministries to explore joint steps and programs with them.

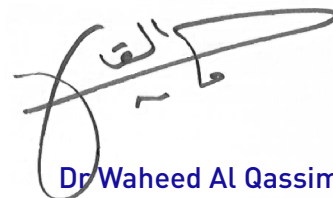
Looking forward for 2018, we plan to elaborate more initiatives that promote the role of banks in community service and social responsibility and to encourage them to adopt the best modern global practices. Moreover, BAB is seeking to further corporate with CBB,

EDB and other official and private bodies in order to strengthen the vital role played by the banking sector in Bahrain and to increase its contribution on the Bahrain GDP.

As mention in the Chairman's report, we will work during 2018 to activate the ten permanent committees of the association to ensure wider participation from the association's members in achieving its role and responsibilities.

We, as an executive team of the Association, looking forward to work in more close with the Board of Directors, which express all the support and assistance to us to perform our duties in serving the banking community in the Kingdom of Bahrain, and through this, we can support sustainable development programs to promote the development and prosperity of the Kingdom's economy.

Finally, my deep gratitude goes to the team of BAB for their loyalty and continuous efforts and support.



Dr. Waheed Al Qassim

Financial Sector Fact Sheet*

Key Economic Indicators

Financial Institutions	398 (2017)
Financial Sector Workforce	13,887 (2017)
Bahraini nationals	9,311 (65%)
Foreign nationals	4,838 (34%)
GDP (Current)	US\$32.2 billion (2016)
Growth	3.4% (2016)
GDP (Constant)	US\$31.8 billion (2016)
Growth	2.6% (2016)
Financial Sector contribution to GDP	17.2% (2017)

*Sources: Central Bank of Bahrain

Financial Sector Fact Sheet*

Banking Sector

Assets	US\$188.7 billion (2017)
No. of institutions	112 (2017)
Retail banks	29
Locally incorporated	13
Branches of foreign banks	16
Wholesale Banks	73
Representative Offices	8
Bank Society	1
No. of Islamic Banks	24 (2017)
Islamic Banks Assets	27 billion (2017)

*Sources: Central Bank of Bahrain

Economic Developments in Kingdom of Bahrain

Despite the economic challenges facing the countries of the world, especially the Gulf Arab oil producing countries, there have recently been several indicators that reflect the Kingdom's success in facing these challenges and avoiding their repercussions, and that thanks to its monetary and financial policies that are moving forward in a steady pace to reduce the negative effects resulting from these challenges, and without prejudice to the gainings of citizens and living standards they are accustomed to.

According to the EDB report, the growth momentum of the Bahraini economy has continued to exceed expectations, with the annual pace of growth in the non-oil sector reaching 4.8% in the first nine months of 2017. During 2017 as a whole, non-oil growth is expected to exceed the 4.0% pace recorded in 2016. The performance of the non-oil private sector also meant that overall economic growth in the Kingdom reached an annual pace of 3.6% for the first

three quarters of the year – improving on the 3.2% pace of growth posted during 2016 as a whole and making Bahrain the fastest growing economy in the GCC. Bahrain's economy continued to perform well thanks to a combination of structural and economic factors. The economy is expected to continue to grow in 2018 as the economic environment in the region becomes more supportive, with greater economic diversification supported by a series of unprecedented investment projects and improved oil prices.

Recent reports by the Arab Investment and Export Credit Guarantee Corporation have highlighted the possibility of real GDP growth in Bahrain to reach its expected rate this year. Thus, the Kingdom's GDP increased to reach \$35.4 billion, or 4.4%, from 2017 compared to forecasts of only \$33.9 billion, in addition to higher fiscal reserves of \$2.8 billion this year compared to \$2.4 billion in 2017.

The Future Generations Reserve, which is estimated at \$615 million, achieved total returns of \$24.1 million at the end of December 2016 or 5.3%, and continued to expand its portfolio by increasing investment in alternative assets in the real estate and infrastructure sectors to provide Long-term protection of its assets, maximize return, and maintain the required level of strategic liquidity.

Performance of the Banking Sector

1. The Banking System

The banking system in Bahrain consists of wholesale banks and retail banks. The total budget of the system at the end of the third quarter of 2017 amounted to \$189.1 billion, compared with \$186.5 billion at the end of the second half of the same year, an increase of 1.4%.

The total balance sheet for retail banks totaled \$84.4 billion at the end of the third quarter of 2017, compared to \$81.9 billion

at the end of the second quarter of 2017, an increase of 3%, accounting for 44.6% of the total budget of the banking system.

While the total consolidated balance sheet for wholesale banks reached \$104.7 billion at the end of the third quarter of 2017 compared with \$104.6 billion at the end of the second quarter of 2017, a slight increase of 0.1%, representing 55.4% of the total budget of the banking system.

Total equity of the banking system totaled \$28.6 billion at the end of the third quarter of 2017, compared to \$27.9 billion at the end of the second quarter of 2017, an increase of 2.5%, representing 15.1% of liabilities.

The consolidated budget of the banking system represents 587.9% of GDP at the end of the third quarter of 2017, compared to 579.7% at the end of the second quarter of 2017.

2. Wholesale Banks

Total assets of wholesale banks rose slightly to \$104.7 billion at the end of the third quarter of 2017 compared to \$104.6 billion at the end of the second quarter of the same year, an increase of 0.1%.

On the asset side, the foreign assets represent the majority of assets, with a value of \$94.3 billion at the end of the third quarter of 2017 compared to \$94.6 billion at the end of the second quarter of the same year, a decrease of 0.3%, representing 90% Of total assets. At the end of the third quarter of 2017, these assets consist mainly of non-bank assets of \$33.4 billion, assets of head offices and affiliates of \$20.6 billion, securities of \$18.9 billion and assets with banks of \$13.7 billion. On the liabilities side, foreign liabilities also represent the majority of liabilities and amounted to \$93.4 billion.

Geographically, the assets of wholesale banks are distributed among the GCC countries at \$34.4 billion, Europe \$34.2 billion, American countries \$10.5 billion, Bahrain \$10.4 billion, Asia \$9.8 billion, and other Arab countries \$3.9 billion and others \$1.5 billion.

3. Retail Banks

Total assets of retail banks amounted to BD 31.7 billion at the end of the third quarter of 2017 compared to BD30.8 billion at the end of the second quarter of 2017, an increase of 3%.

As a result of the nature of its activity in providing retail banking services to individuals and institutions in the local market, the local assets of retail banks represent the majority of assets and reached BD 18 billion at the end of the third quarter of 2017, representing 57% of total assets.

At the end of the third quarter of 2017, local assets constituted government facilities (loans and securities) amounting to BD5.1 billion compared with BD5 billion at the end of the second quarter, an increase of 2%, facilities to private sector amounting to BD8.7 billion, compared with BD8.6 billion, interbank deposits of BD2 billion compared to BD1.8 billion, an increase of 11% and deposits with the Central Bank of Bahrain worth BD1.2 billion compared to BD one billion, an increase of 20%.

In addition, the local liabilities represent the majority of the liabilities, which stood at BD17.4 billion at the end of the third quarter of 2017 compared to BD17.1 billion at the end of the second quarter, an increase of 2%, representing 55% of the total liabilities. Private sector deposits represent the main weight on the liabilities side of BD10 billion, followed by government deposits of BD2.2 billion and shareholders' equity of BD2.9 billion and interbank deposits worth BD1.5 billion at the end of the third quarter of 2017. As for the distribution of the total facilities provided to the private sector by economic activity, they are divided into three main sections: facilities to the economic sector activities which reached BD4.5 billion at the end of the third quarter of 2017 (54% of total facilities), facilities to individuals BD3.7 billion (44%) and facilities to government BD278 million (2%).

The facilities to economic sector activities were provided to industry (BD704 million), quarries (BD38 million), agriculture (BD6 million), construction (BD1,487 million), trade (BD1,157 million), financial sector (BD205 million), transport and communications

(BD127 million), hotels and restaurants (BD180 million) and other sectors (BD878 million) at the end of the third quarter of 2017. With regard to the facilities offered to individuals in terms of security provided were facilities with mortgages guarantee BD1,601 million, facilities with vehicle guarantee BD120 million, facilities with deposits BD54 million, facilities with salary assignment BD1,275 million, credit cards receivables BD85 million and others BD549 million.



4. Islamic banks

Islamic banks consist of Islamic retail banks and Islamic wholesale banks. Total assets of these banks amounted to \$26.8 billion at the end of the third quarter of 2017, compared with \$26.3 billion at the end of the second quarter of 2017, an increase of 9%.

Foreign assets of Islamic banks stood at \$8.9 billion at the end of the third quarter of 2017, mainly consisting of \$2.3 billion assets with main offices, \$2.1 billion securities, \$1.9 billion investments with banks and \$1.7 billion non-bank investments.

While domestic assets stood at \$17.9 billion at the end of the third quarter of 2017, consisting of non-bank investment \$9.3 billion, investment with banks \$4.2 billion and investment with the government \$2.4 billion.

On the liabilities side, the foreign liabilities of Islamic banks amounted to \$7.9 billion at the end of the third quarter of 2017, consisting mainly of capital and reserves \$3.6 billion, liabilities with banks \$2.1 billion and non-bank liabilities \$1.7 billion.

While domestic liabilities stood at \$18.9

billion at the end of the third quarter of 2017, consisting of non-bank liabilities \$10.3 billion, capital and reserves \$3.3 billion, bank liabilities \$3.2 billion and liabilities from the government \$1.4 billion.

Geographically, the assets of the Islamic banks were distributed among Bahrain (\$17.9 billion), GCC (\$3.1 billion), Europe (\$2.0 billion), Americas (\$1.6 billion), other Arab countries (\$1.5 billion), Asia (\$473 million), and other countries (\$139 million) at the end of the third quarter of 2017.



Achievements and Activities 2017

BAB Permanent Committees

Based on the Board of Directors' resolution early last year, nine permanent committees were established in order to give deeper and more comprehensive institutional dimension for the activities and functions of the association and allow for greater participation from all members of the association to enable the association of perform its functions. The role played by these committees during the first year of their establishment proved that they are key channel in achieving BAB' main goal to be the representative of banking sector and advocating its interests in the Kingdom of Bahrain.

10

Committees

3

Years Validity

142

Members

22

Different Banks

27

Meetings

12

Task Forces

2

Events

BAB Permanent Committees

AML & Compliance Committee



Supervised by:
Ahmed Abdulrahim



Chaired by:
Hana Almurran



Deputy:
Abeer Al Shehabi

Banking Product Committee



Supervised by:
Hassan Jarrar



Chaired by:
Dalal Abdulla



Deputy:
Odeh AlMassri

Digitalization & Cyber Security Committee



Supervised by:
Adnan Ahmed Yousif



Chaired by:
Ahmed AlBalooshi



Deputy:
Dr. Yousif Almas

HR & Remuneration Committee



Supervised by:
Dr. Khaled Kawan



Chaired by:
Adel Al Abbasi



Deputy:
Muna Al Balooshi

Risk Management Committee



Supervised by:
Jean-Christophe
Durand



Chaired by:
Bruce Wade



Deputy:
Maisoon BenShams

International Standards Committee



Supervised by:
Jacques Michel



Chaired by:
Michel Hamenthienne



Deputy:
Eduardo Rangel

BAB Permanent Committees

Islamic Banking Committee



Supervised by:
Hassan Jarrar



Chaired by:
Wasam Baqer



Deputy:
Mohammed Shaheed

Legal & Regulatory framework Committee



Supervised by:
Adnan Ahmed Yousif



Chaired by:
Dr. Adel Al Basha



Deputy:
Alaa Al Hamad

Sustainable Development Committee



Supervised by:
Adnan Ahmed Yousif



Chaired by:
Dr. Ali Adnan Ibrahim



Deputy:
Subah Al Zayani

Assets Management Committee



Supervised by:
Abdulaziz Al Helaissi



Chaired by:
Abdulhadi M. Shahadah



Deputy:
Ammar Fuad Al Subah

Main Focus Points on the Committees Agendas

KYC & KYCC

IFRS 9

Basel 3

VAT

Fees &
Charges
Consultation
Paper
by CBB

BAB Events

As highlighted in the following pages, BAB's events and activities in 2017 showed a noticeable growth in terms of quantity and quality and become more focus on the key strategic issues of banking sector in Bahrain such enhancing banking regulations, promoting the prestigious financial center of Bahrain, advocating the bank's interests and dealing with their requirements and challenges, spreading awareness on international banking regulations and challenges, in addition to internal issues such as: HR and Training, IT, Compliance...tec. In order to achieve these issues, BAB organized many meetings, seminars, visits, lobbying teams during the past year.

73

Meetings, Seminars
& Roundtables

1214

Attendees

90.2%

of member banks
attending

96%

of Events & meetings
Covered by Local
Media

Lobbying Events

- Financial Sector Court
- Returned Checks
- HR in Banking Sector
- PR in Banking Sector
- Fees & Charges for Retail Customers Roundtable
- Meeting His Royal Highness Prince Khalifa Bin Salman Al Khalifa
- Meeting with EDB
- Meeting with BIBF
- Meeting with Benefit
- University of Bahrain, BAB Mentoring Program
- Meeting His Royal Highness Prince Khalifa Bin Salman Al Khalifa
- Bahrain Banks Evening Reception 2017
- 27 Committees Meetings
- 3 Chairperson Meetings with BAB
- Advisory Board Meeting

CEO Roundtable Events

- Financial Sector Court
- Returned Checks
- HR in Banking Sector
- PR in Banking Sector
- Fees & Charges for Retail Customers Roundtable
- Roundtable with EDB
- Roundtable with BIBF
- Roundtable with BENEFIT
- Meeting with the Minister of transportation & telecommunication
- Workshop on Fraud Detection with Royal
- The Future of Finance RoundTable with the CFA President
- Bahrain CEO Luncheon

Other Meetings & Events

- Meeting with CBB
- Fintech in Bahrain Seminar
- Freedom Road show Meeting
- Credit Analysis & Analytics Framework
- Meeting with Amazon web service
- Cybersecurity Workshop
- Managing your Information Security Risk RoundTable
- Bahrain Investment Market Seminar
- Vat Session
- Fintech in Bahrain Seminar
- BAB Mentoring Program/University of Bahrain
- Signing MOU with the Banks Association of Turkey
- Visiting the Turkish Risk Center to study their experience
- 4 Board Meetings
- Advisory Board Meeting
- 3 BHIBOR Meetings



We, at BBK are proud to be members of the Bahrain Association of Banks (BAB). BAB has constantly been strengthening its role as the coordinator between the Banks of the Kingdom of Bahrain and the Central Bank of Bahrain (CBB). The revamp of the association's visual identity that took place during the year, reflects BAB's ambition to continuously enhance the strong presence of the association and its members in the financial and banking sector worldwide. Like BBK, BAB places utmost importance in promoting the growth and prosperity of Bahrain's financial services through various initiatives like the participation in the IMF. Our value this partnership and look forward to continued success.

Mr. Reyadh Sater

Chief Executive Officer
Bank of Bahrain & Kuwait

BAB Plans for 2018

Expansion of the membership base of the association. It is necessary to strive to restore the confidence of various banks down to conceptualize comprehensive solutions for challenges facing the financial and banking sector in Bahrain.

Presentation of all banking sector categories to highlight the challenges and problems they faced at all levels and submit their opinions and proposals to the Central Bank of Bahrain and the rest of other stakeholders.

Assisting the industry to prepare for the new banking regulations such as IFRS9 and Fintech, as well as the global business environment represented by the de-risking undertaken by the international correspondent banks and the regulations of international sanctions, anti-money laundering and terrorist financing, FTACA, and CRS and Basel 3 and other international legislation in addition to global financial and economic pressures.

The association will continue to build bridges of contact and mutual coordination and work closely with all government agencies and non-governmental organizations concerned such as CBB, EDB, relevant government ministries, and the Chamber of Commerce and Industry of Bahrain and other financial and economic entities in order to strengthen the vital role played by the banking sector in Bahrain and to consolidate the position of the Kingdom as a strong financial center.

Elaboration of more initiatives that promote the role of banks in community service and social responsibility and to encourage them to adopt the best modern global practices.

Activation of the permanent committees of the Association through the development of their internal regulations and programs to give deeper and more comprehensive institutional dimension for the activities and functions of the Association and allow for greater participation from all members of the Association.

A conceptual image featuring a hand in a suit sleeve holding a globe. The globe is covered in a white, interconnected network of lines, symbolizing global connectivity or a digital network. The background is a solid blue color with a diagonal split.

“We at Al Baraka Islamic Bank really appreciate the role of Bahrain Association of Banks (BAB) to bring all Bahrain’s financial institutions under one banner. BAB shows excellent performance to have all Retail Banks, Wholesale Banks, Islamic Banks, Insurance Firms, Investment Companies and other financial bodies come together under one umbrella organization. BAB is always aiming to improve the banking sector by helping all Bahrain’s financial institutions to engage effectively with all governmental bodies and agencies”.

**Mr. Mohammed Al
Mutaweh**

Chief Executive Officer
Al Baraka Islamic Bank



Adnan Ahmed Yousif

BAB Chairman, CE &
President
Al Baraka Banking Group



Ahmed Abdulrahim

Deputy Chairman, CEO
Ithmaar Bank



Khalil Nooruddin

Treasurer, Managing
Partner
Capital Knowledge



J.C. Durand

Board Member, CEO
NBB



Hassan Jarrar

Board Member, CEO
BisB



Dr. Khaled Kawan

Board Member, President
& CEO
Bank ABC



Abdulaziz Al-Helaissi

Board Member, CEO
GIB



Dr. Boutros Klink

Board Member, CEO
Standard Chartered Bank



Jacques Michel

Board Member, CEO
BNP Paribas



Melika Betley

Board Member, CEO
HSBC



Najla Al Shirawi

Board Member, CEO
SICO



Abdullatif Janahi

Board Member, CEO
Venture Capital Bank



Matthew Joan Deakin

Board Member
Independent

Hasan Ali

Support Coordinator
P:(973) 1782 3002
E: support@banksbahrain.org

Dr. Waheed Al Qassim

Chief Executive Officer
P:(973) 1782 3000
E: ceo@banksbahrain.org

Afrah Ajaj

Members Affairs Manager
P:(973) 1782 3009
E: lobbying@banksbahrain.org

**Yousif Mashkoor**

Members Affairs Coordinator
P:(973) 1782 3006
E: membership@banksbahrain.org

Noof Swar

Communications Coordinator
P:(973) 1782 3004
E: communication@banksbahrain.org

Nedhal Hussain

Finance Coordinator
P:(973) 1782 3001
E: accounts@banksbahrain.org

BAB has played an instrumental role in addressing some of the key challenges facing banking industry. It provided the opportunity for banks' senior executives to share views, align efforts and further strengthen their level of cooperation BAB invited high profile government officials to present their strategic initiatives and highlighted potential opportunities for banks to support Kingdom's growth plans.

**Mr. Mohammed
Assem**

General Manager
Arab Bank plc

Independent auditors' report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Bahrain Association of Banks (the "Association")**, which comprise the statement of financial position as at 31 December 2017, and the statements of comprehensive income and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the accounting policies set out in Note 3 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those policies are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Association in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies set out in Note 3 to the financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Association to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Partner's Registration No. 30
14 February 2018
Manama, Kingdom of Bahrain**



I would like to congratulate BAB on another eventful and successful year in representing the best interests of its members and Bahrain's banking sector as a whole. The diverse and interesting programme initiated by the Association has helped to improve collaboration between the regulatory bodies and the banking industry. BAB has been instrumental in bringing the Kingdom's banking industry agenda to the forefront, with the aim of adding value, imparting knowledge, enhancing skills and widening the debate.

Najla M. Al Shirawi

Chief Executive Officer
Securities & Investment
Company (SICO)

Statement of Financial Position

	Notes	31 December 2017 BD	31 December 2016 BD
Assets			
Non-current asset			
Plant and equipment	5	11,348	16,653
Current assets			
Membership subscriptions and other receivables	6	2,493	13,202
Cash and cash equivalents	7	305,910	176,766
		308,403	189,968
Total assets		319,751	206,621

Statement of Financial Position

	Notes	31 December 2017 BD	31 December 2016 BD
Members' fund and liabilities			
Members' fund			
Accumulated fund account	10	314,036	195,524
Liabilities			
Current liabilities			
Accruals and other payables	8	5,715	11,097
Total liabilities		5,715	11,097
Total members' fund and liabilities		319,751	206,621

These financial statements were approved by the Board of Directors on
and signed on its behalf by:

14 February 2018


Adnan Ahmed Yousif

Chairman


Waheed Al Qassim

Chief Executive Officer

The accounting policies and the notes from pages 44 to 50 form an integral part of these financial statements.

Statement of Comprehensive Income

	Notes	31 December 2017 BD	31 December 2016 BD
Income			
Revenue	11	382,576	347,853
Expenses			
Staff costs number of staff- comparative		(175,210)	(182,357)
General and administrative expenses	12	(26,491)	(27,245)
Marketing and promotional expenses	13	(56,740)	(53,679)
Depreciation	5	(5,305)	(8,290)
Bad debts written off	6	(318)	(3,960)
Surplus for the year transferred to accumulated fund account		(264,064)	(275,531)
		118,512	72,322

These financial statements were approved by the Board of Directors on
and signed on its behalf by:

14 February 2018


Adnan Ahmed Yousif

Chairman


Waheed Al Qassim

Chief Executive Officer

The accounting policies and the notes from pages 44 to 50 form an integral part of these financial statements.

Statement of Cash Flow

	31 December 2017	31 December 2016
	BD	BD
Operating activities		
Surplus for the year	118,512	72,322
Adjustments for:		
Depreciation	5,305	8,290
Bad debts written off	318	3,960
Operating profit before working capital changes	124,135	84,572
Changes in operating assets and liabilities:		
Change in membership subscriptions and other receivables	10,391	5,889
Change in accruals and other payables	(5,382)	(132,477)
Payment of employees' terminal benefits		(11,026)
Net cash generated from/(used in) operating activities	129,144	(53,042)

The accounting policies and the notes from pages 44 to 50 form an integral part of these financial statements.

	31 December 2017	31 December 2016
	BD	BD
Investing activities		
Purchase of plant and equipment		(21,216)
Net cash used in investing activities		(21,216)
Net change in cash and cash equivalents	129,144	(74,258)
Cash and cash equivalents, beginning of the year	176,766	251,024
Cash and cash equivalents, end of the year	305,910	176,766
Comprises:		
Cash in hand	152	179
Bank balance	305,758	75,344
Short term deposit		101,243
	305,910	176,766

The accounting policies and the notes from pages 44 to 50 form an integral part of these financial statements.

Notes to the Financial Statements

31 December 2017

1. Organisation and activities

Bahrain Association of Banks (the “Association”), formerly known as “The Bankers’ Society of Bahrain”, was established in the Kingdom of Bahrain in 1979 and re-registered on 27 January 1991 under registration number 36/6/M according to the provisions of the Law of Social and Cultural Societies and Clubs, Associations carrying on Youth and Sports activities and Private Organisations promulgated by Legislative Decree number 21 of 1989. In May 2010, the Association was registered with the Central Bank of Bahrain in accordance with the requirements of Article 179 of the Central Bank of Bahrain and Financial Law 2006.

The principal activity of the Association is to promote the interests of the Bahrain banking community in Bahrain and abroad.

The Association’s registered office is situated in the Kingdom of Bahrain.

2. Basis of preparation

2.1 Statement of compliance

The financial statements of the Association have been prepared in accordance with the accounting policies set out in Note 3.

2.2 Basis of measurement

The Association’s financial statements have been prepared on the basis of historical cost.

2.3 Functional and presentation currency

The Association’s financial statements are presented in Bahrain Dinars. All values are rounded to the nearest Bahrain Dinar.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with accounting policies set out in Note 3 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.

3. Summary of significant accounting policies

The following significant accounting policies have been consistently applied to all years presented.

3.1 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign exchange gain and losses resulting from the settlement of such transactions and translations at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3.2 Non-derivative financial instruments

The Association deals only in non-derivative financial instruments. Non-derivative financial assets and liabilities comprises of membership subscription and other receivables, cash and cash equivalents and accruals and other payables.

Receivables

Membership subscription and other receivables are initially recorded at invoice amounts, which represent the fair value of services rendered. Subsequent to initial recognition, membership subscription and other receivables are recorded at cost, less impairment allowances, if any.

Cash and cash equivalents

Cash and cash equivalents comprises cash in hand, balance with bank and short-term bank deposit with original maturity of three months or less.

Accruals and other payables

Liabilities are recognised for the amounts to be paid in the future for good or services

received, whether billed by the supplier or not.

3.3 Plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and impairment allowances, if any. Cost includes all expenditure that is directly attributable to the acquisition of the plant and equipment and bringing the plant and equipment to their present location and condition for intended use.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

When an item of plant and equipment is sold or otherwise retired, the cost and related accumulated depreciation are removed from the accounts and any resultant gain or loss of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment, and are recognised within “other income” in the statement of comprehensive income.

Expenditure incurred to replace a component of an item of plant and equipment that is accounted for separately, is capitalised. Other subsequent expenditure is capitalised only when it is probable that the future economic benefits embodied with the item will flow to the Association and the cost of the items can be measured reliably. All other expenditure is recognised in the statement of comprehensive income as an expense when incurred.

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated remaining useful lives of each component of an item of plant

and equipment. The estimated useful lives are as follows:

Leasehold improvements	4 years
Furniture and equipment	4 years
Software	4 years

3.4 Impairment

The financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and the loss event had a negative effect on the estimated future cash flow of that asset that can be estimated reliably.

If any such evidence exists, the asset’s recoverable amount is estimated and impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount.

All impairment losses are recognised in the statement of comprehensive income.

The carrying amounts of the Association's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. All impairment losses are recognised in the statement of comprehensive income.

3.5 Provision

A provision is recognised in the statement of financial position when the Association has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.6 Employee benefits

All short-term employee benefits are recognised in the statement of comprehensive income on an accrual basis.

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation's scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Association's contribution to this scheme, which represents a defined contribution scheme, is expensed as incurred.

Expatriate employees are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector -Law no. (36) of 2012, based on length of service and final remuneration. Provision for this unfunded commitment which represents a defined benefit plan has been made by calculating the notional liability had all employees left at the reporting date.

3.7 Revenue recognition

Revenue comprises fair value of the consideration received or receivable for services rendered in the ordinary course of the Association's activities. The Association recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Association and when specific criteria has been met to each of the Association's activities as described below:

Income from membership subscriptions is recognised on a straight line basis over the term of the membership. Membership subscriptions billed in advance are included in current liabilities as membership subscriptions received in advance.

Donations received without conditions are recognised as revenue in the period in which the donations are received.

Income from magazine advertising is recognised when the magazine is published.

Income from event sponsorship is recognised when the service is provided.

3.8 Operating lease

Operating lease payments are recognised in the statement of comprehensive income on a straight line basis over the lease terms.

4. Critical accounting estimates and judgments in applying accounting policies

The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements include:

4.1 Impairment of receivables

The Association reviews the carrying amounts of the receivables at each reporting date to determine whether the receivables have been impaired.

The Association identifies the receivables, which have been impaired based on among other factors, the age of the receivables, the receivables recoverable amount is estimated based on past experience and estimated cash flows.

4.2 Useful life and residual value of plant and equipment

The Association reviews the useful life and residual value of the plant and equipment at each reporting date to determine whether an adjustment to the useful life and residual value is required. The useful life and residual value is estimated based on the similar assets of the industry, and future economic benefit expectations of the management.

4.3 Impairment losses

The Association establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The maximum credit risk exposure on receivables is the carrying amount, which is net of specific provisions.

5.Plant and equipment

	Leasehold improvements	Furniture and equipment	Software	2017 Total	2016 Total
Costs	BD	BD	BD	BD	BD
At 1 January	12,432	49,648	5,936	68,016	46,800
Additions	-	-	-	-	21,216
At 31 December	12,432	49,648	5,936	68,016	68,016
Accumulated depreciation					
At 1 January	5,633	41,294	4,436	51,363	43,073
Charge for the year	2,156	2,649	500	5,305	8,290
At 31 December	7,789	43,943	4,936	56,668	51,363
Net book value					
At 31 December 2017	4,643	5,705	1,000	11,348	-
At 31 December 2016	6,799	8,354	1,500	-	16,653

6. Membership subscriptions and other receivables

	2017	2016
	BD	BD
Membership subscriptions	6,523	6,523
Less: Provision for doubtful debts	(6,523)	(6,523)
	-	-
Advance to suppliers	927	1,855
Prepayments	754	737
Other receivables	1,130	14,570
Less: Other receivables written off	(318)	(3,960)
	2,493	13,202

All amounts are short term. The carrying values of membership subscriptions and other receivables are considered to be a reasonable approximate of fair value at the financial position date.

7. Cash and cash equivalents

	2017	2016
	BD	BD
Cash in hand	152	179
Bank balance	305,758	75,344
Short term deposit	-	101,243
	305,910	176,766

Short term deposit was placed with the Association's banker; earned interest rate of 0.8% per annum with maturity of less than 3 months as at 31 December 2016.

There are no restrictions on bank balance and short term deposit at the date of approval of the financial statements.

8. Accruals and other payables

	2017	2016
	BD	BD
Accrued expenses	4,317	4,311
Leave salary	398	3,286
Other payables	1,000	1,000
Membership subscriptions received in advance	-	2,500
	5,715	11,097

The carrying values of accruals and other payables are considered to be a reasonable approximate of fair value at the financial position date.

9. Employees' terminal benefits

The movement in leaving indemnity liability applicable to expatriate employees is as follows:

	2016
	BD
Opening	11,026
Amount paid during the year	(11,026)
Closing	-

The number of expatriate staffs employed by the Association at 31 December 2017 was Nil (2016: Nil).

10. Accumulated fund account

	2017	2016
	BD	BD
Opening	195,524	123,202
Surplus for the year	118,512	72,322
Closing	314,036	195,524

11. Revenue

	2017	2016
	BD	BD
Membership subscription	202,000	207,500
Income from events	97,000	106,146
Donations	82,500	30,000
Magazine advertising income	-	2,760
Others	1,076	1,447
	382,576	347,853

12. General and administrative expenses

	2017	2016
	BD	BD
Professional fees	11,810	7,416
Utilities	5,692	6,282
Repairs and maintenance	3,516	6,633
Rent	-	3,600
Office and other miscellaneous expenses	5,473	3,314
	26,491	27,245

13. Marketing and promotional expenses

	2017	2016
	BD	BD
Functions and events	56,551	49,078
Magazine expenses	-	178
Other expenses	189	4,423
	56,740	53,679

14. Contingent liability

At 31 December 2017, there was one contingent liability. One of the former employees of the Association had filed legal case against the Association in the Bahraini Court claiming compensation for termination of his employment contract. Total claim amounts to BD8,474 plus 6% interest and legal expenses. The case is in progress and no ruling has been made by the court as of the reporting date. The Directors believe that the Association's position is strong and no liability will arise from this claim, and accordingly no provision has been made in the financial statements.

15. Related party transactions

The Association's related parties include its Directors, key management, their close relatives and business under their control. The Association's transactions with related parties are in the ordinary course of business. The balances with related parties at the statement of financial position date have been separately disclosed in the financial statements, if any.

The total salaries to key management in 2017 (including salaries and benefits) was BD81,280 (2016: BD78,770).

16. Financial instruments and risk management

The table below sets out the Association's classification of each class of financial assets and financial liabilities:

31 December 2017	Loans and receivables at amortised cost	Financial liabilities at amortised cost	Total carrying amount
	BD	BD	BD
Assets			
Other receivables	812	-	812
Cash and cash equivalents	305,910	-	305,910
	306,722	-	306,722
Liabilities			
Accruals and other payables	-	5,317	5,317
	-	5,317	5,317

31 December 2017	Loans and receivables at amortised cost	Financial liabilities at amortised cost	Total carrying amount
	BD	BD	BD
Assets			
Other receivables	10,610	-	10,610
Cash and cash equivalents	176,766	-	176,766
	187,376	-	187,376
Liabilities			
Accruals and other payables	-	7,811	7,811
	-	7,811	7,811

The Association has exposure to credit risk, liquidity risk and market risk from its use of financial instruments.

This note presents information about the Association's exposure to each of the above risks, the Association's objectives, policies and processes for measuring and managing risk. The note also presents certain quantitative disclosures in addition to the disclosures throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Association's risk management framework.

The Association's risk management policies are established to identify and analyse the risks faced by the Association, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Association's activities.

The accounting policies for financial assets and liabilities are described in Note 3.

a. Credit risk

Credit risk is the risk that one party to the financial instrument will fail to discharge its obligation and cause the other party to incur financial loss. The Association is exposed to credit risk on its membership subscriptions and other receivables, bank balance and short term deposit.

(i) Credit risk on membership subscriptions and other receivables is minimised as these are mainly membership subscription fees receivable from the Association's members. Appropriate procedures for follow-up and recovery are in place to monitor credit risk.

(ii) The Association limits its exposure to credit risk on bank balance and short term deposit by maintaining balances with banks having high credit ratings. Given these high credit ratings, the Association does not expect any bank to fail to meet its obligations.

(iii) The table below shows the age analysis of the Association's financial assets as at 31 December 2017 and 2016.

Particulars	2017	2016
	Neither past due nor impaired	Neither past due nor impaired
	BD	BD
Other receivables	812	10,610
Bank balance	305,758	75,344
Short term deposit	-	101,243
	306,570	187,197

b. Liquidity risk

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

The Association's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Association's reputation.

The Association does not have any significant financial liabilities other than accrued expenses.

c. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Association's income or the value of its holdings of financial

instruments.

(i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Association does not have any significant currency risk as majority of the transactions are in Bahrain Dinars.

(ii) Interest rate risk

Interest rate risk is the risk that the Association's earnings will be affected as a result of fluctuations in the value of financial instruments due to changes in market interest rates.

The Association is not exposed to significant interest rate risk at the reporting date.

(iii) Other market price risk

Other market rate risk is the risk that the fair value or future cash flows of the financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factor specific to the individual financial instruments or its issuers, or factors affecting all similar financial instrument traded in the market.

The Association is not significantly exposed to any other market price risk as at the reporting date.

d. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the enterprise has access at that date. The fair value of a liability reflects its non-performance risk.

Differences can therefore arise between book values under the historical cost method and fair value estimates.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The fair values of the financial assets and liabilities of the Association are not materially different from their carrying values.

17. Comparative figures

Comparative figures for the previous year have been reclassified/re-arranged wherever necessary to conform with the presentation in the current year's financial statements

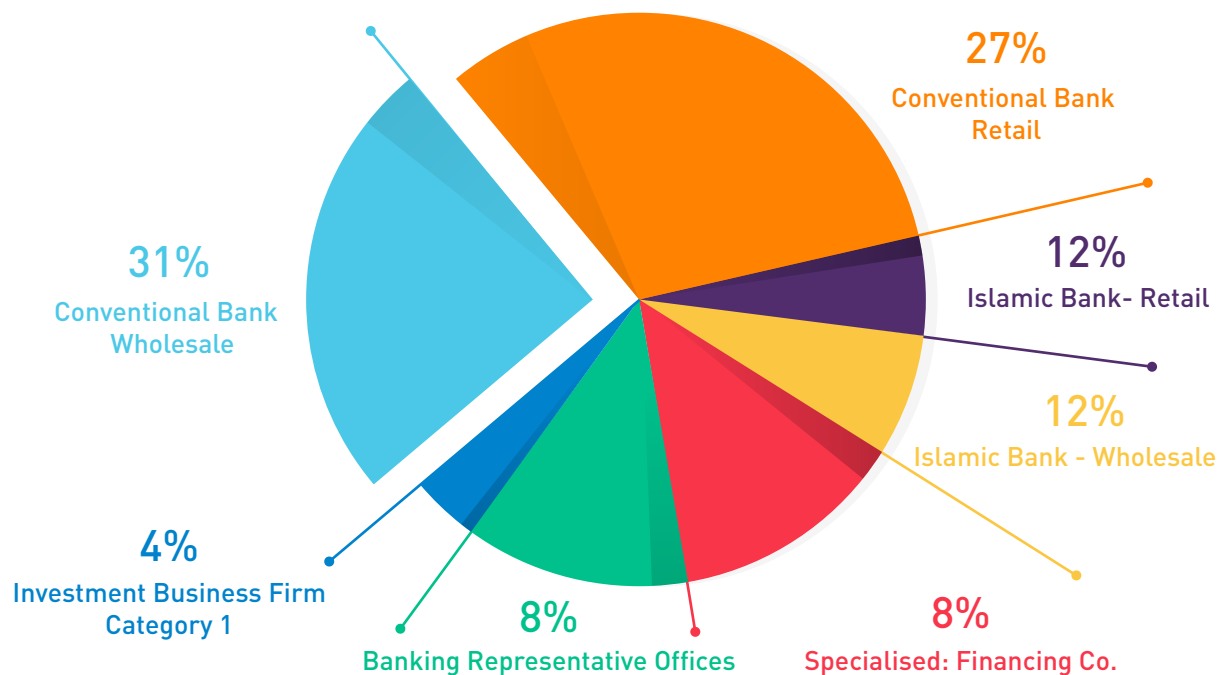


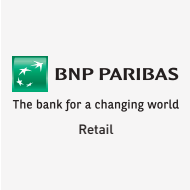
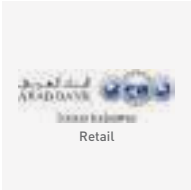
The evolving role of BAB in supporting the banking sector and championing industry issues continued to play a key role in providing the right platform for cross-industry interaction.

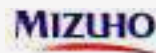
Mr. Ali Moosa

Senior Country Officer
JPMorgan Chase Bank

51	Members
03	New Members
33	Potential Members









**"Our sector is proficient why
should our service be any different"**

Our address:

Office 141, 14th Floor, NBB Tower
Building 113, Block 316, Road 383
P.O. Box 1034
Kingdom of Bahrain

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f Bahrain Association of Banks

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