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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bahrain Islamic Bank B.S.C.  
Manama, Kingdom of Bahrain

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiary (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of income, cash flows, changes in owners' equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund 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 2018, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated sources and uses of good faith qard fund, and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

### Report on other regulatory requirements

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2016 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro  
Partner Registration No. 100  
24 February 2019

# Bahrain Islamic Bank B.S.C.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 BD'000	2017 BD'000
<b>ASSETS</b>			
Cash and balances with banks and Central Bank	3	65,437	69,666
Placements with financial institutions	4	137,450	80,845
Financing assets	5	578,953	561,822
Investment securities	6	240,053	258,399
Ijarah Muntahia Bittamleek	8	165,730	164,397
Ijarah rental receivables	8	21,141	14,483
Investment in associates	7	21,643	23,739
Investment in real estate	10	24,284	29,831
Property and equipment	9	13,641	14,270
Other assets	11	11,062	11,195
<b>TOTAL ASSETS</b>		<b>1,279,394</b>	<b>1,228,647</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Placements from financial institutions		114,744	67,872
Placements from non-financial institutions and individuals		7,255	-
Borrowings from financial institutions	12	96,386	101,576
Customers' current accounts		133,244	131,666
Other liabilities	13	24,025	11,507
<b>Total Liabilities</b>		<b>375,654</b>	<b>312,621</b>
<b>Equity of Investment Accountholders</b>	14	<b>785,991</b>	<b>793,756</b>
<b>Owners' Equity</b>			
Share capital	15	106,406	101,339
Treasury shares	15	(892)	(864)
Shares under employee share incentive scheme		(391)	(498)
Share premium		120	98
Reserves		12,506	22,195
<b>Total Owners' Equity</b>		<b>117,749</b>	<b>122,270</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>		<b>1,279,394</b>	<b>1,228,647</b>

The consolidated financial statements were approved by the Board of Directors on 24 February 2019 and signed on its behalf by:

		
Dr. Esam Abdulla Eakhrro Chairman	Brig. Ebrahim Abdulla Al Mahmood Vice Chairman	Hassan Amin Jarrar Chief Executive Officer

# Bahrain Islamic Bank B.S.C.

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2018

	Note	2018 BD'000	2017 BD'000
<b>INCOME</b>			
Income from financing	18	43,110	40,507
Income from investment in Sukuk		10,829	6,808
<b>Total income from jointly financed assets</b>		<b>53,939</b>	<b>47,315</b>
Return on equity of investment accountholders		(41,162)	(36,010)
Group's share as Mudarib		27,223	24,646
Net return on equity of investment accountholders	14.5	(13,939)	(11,364)
<b>Group's share of income from jointly financed assets (both as mudarib and investor)</b>		<b>40,000</b>	<b>35,951</b>
Expense on placements from financial institutions		(2,043)	(1,018)
Expense on placements from non-financial institutions and individuals		(57)	-
Expense on borrowings from financial institutions		(4,034)	(2,032)
Fee and commission income		7,547	7,642
Income from investment securities	19	216	513
Income from investment in real estate	20	(556)	213
Share of results of associates, net	7	86	(1,103)
Other income	21	4,372	2,740
<b>Total income</b>		<b>45,531</b>	<b>42,906</b>
<b>EXPENSES</b>			
Staff costs		12,588	12,611
Depreciation	9	1,473	1,570
Other expenses	22	11,194	12,387
<b>Total expenses</b>		<b>25,255</b>	<b>26,568</b>
<b>Profit before impairment allowances</b>		<b>20,276</b>	<b>16,338</b>
Impairment allowance, net	23	(8,895)	(6,197)
<b>PROFIT FOR THE YEAR</b>		<b>11,381</b>	<b>10,141</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (fils)</b>	25	<b>10.83</b>	<b>9.65</b>



Dr. Esam Abdulla Fakhro  
Chairman



Brig. Ebrahim Abdulla Al Mahmood  
Vice Chairman



Hassan Amin Jarrar  
Chief Executive Officer

# Bahrain Islamic Bank B.S.C.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 BD'000	2017 BD'000
<b>OPERATING ACTIVITIES</b>			
Profit for the year		11,381	10,141
Adjustments for non-cash items:			
Depreciation	9	1,473	1,570
Impairment allowance, net	23	8,895	6,197
Loss on sale of investment in associates		-	83
Impairment on investment in real estate	20	204	119
Loss on sale of investment in real estate	20	531	39
Gain on sale of investment securities		-	(3)
Gain on foreign exchange revaluation		29	-
Recoveries from written of accounts		(3,472)	-
Share of results of associates, net	7	(86)	1,103
<b>Operating profit before changes in operating assets and liabilities</b>		<b>18,955</b>	<b>19,249</b>
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		100	(1,440)
Financing assets		(34,485)	(57,605)
Ijarah Muntahia Bittamleek		(8,359)	(18,808)
Other assets		(693)	739
Customers' current accounts		1,578	(800)
Other liabilities		11,729	(3,596)
Placements from financial institutions		44,719	(24,582)
Placements from non-financial institutions and individuals		7,255	-
Equity of investment accountholders		(7,765)	139,440
<b>Net cash from operating activities</b>		<b>33,034</b>	<b>52,597</b>
<b>INVESTING ACTIVITIES</b>			
Capitalized expenditure of investment in real estate		-	(28)
Disposal of investment in real estate		3,480	314
Disposal of investment in associates		-	1,348
Purchase of investment securities		(75,590)	(119,546)
Purchase of property and equipment		(845)	(1,193)
Disposal of property and equipment		1	-
Proceeds from disposal of investment securities		95,504	3,538
<b>Net cash from / (used in) investing activities</b>		<b>22,550</b>	<b>(115,567)</b>
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury shares		-	(301)
(Repayment) / drawdown of borrowings from financial institutions		(5,190)	90,156
Dividends paid		(72)	(4,827)
<b>Net cash (used in) / from financing activities</b>		<b>(5,262)</b>	<b>85,028</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>50,322</b>	<b>22,058</b>
Cash and cash equivalents at 1 January		112,794	90,736
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>163,116</b>	<b>112,794</b>
Cash and cash equivalents comprise of:			
Cash on hand	3	15,318	13,042
Balances with CBB, excluding mandatory reserve deposits	3	242	3,654
Balances with banks and other financial institutions excluding restricted balances	3	10,106	15,253
Placements with financial institutions with original maturities less than 90 days	4	137,450	80,845
		<b>163,116</b>	<b>112,794</b>

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

## Bahrain Islamic Bank B.S.C.

### CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2018

	Shares under employee share		Reserves				Total owners' equity BD'000			
	Share capital BD'000	Treasury shares BD'000	incentive scheme BD'000	Share premium BD'000	Statutory reserve BD'000	Real estate fair value reserve BD'000		Investment securities fair value reserve BD'000	Retained earnings BD'000	Total reserves BD'000
Balance at 1 January 2018	101,339	(864)	(498)	98	2,977	6,145	745	12,328	22,195	122,270
Impact of adopting FAS 30 (note 3a)	-	-	-	-	-	-	-	(13,943)	(13,943)	(13,943)
Impact of adopting FAS 30 by associate (note 3a)	-	-	-	-	-	-	-	(350)	(350)	(350)
<b>Balance at 1 January 2018 (Restated)</b>	<b>101,339</b>	<b>(864)</b>	<b>(498)</b>	<b>98</b>	<b>2,977</b>	<b>6,145</b>	<b>745</b>	<b>(1,965)</b>	<b>7,902</b>	<b>107,977</b>
<b>Profit for the year</b>	-	-	-	-	-	-	-	11,381	11,381	11,381
Bonus shares declared for 2017	5,067	(28)	(34)	(35)	-	-	-	(4,970)	(4,970)	-
Transfer to zakah fund	-	-	-	-	-	-	-	(265)	(265)	(265)
Transfer to charity fund	-	-	-	-	-	-	-	(200)	(200)	(200)
Shares allocated during the year	-	-	141	57	-	-	-	-	-	198
Net movement in investment securities fair value reserve	-	-	-	-	-	-	(27)	-	(27)	(27)
Net movement in real estate fair value reserve	-	-	-	-	-	(1,315)	-	-	(1,315)	(1,315)
Transfer to statutory reserve	-	-	-	-	1,138	-	-	(1,138)	-	-
<b>Balance at 31 December 2018</b>	<b>106,406</b>	<b>(892)</b>	<b>(391)</b>	<b>120</b>	<b>4,115</b>	<b>4,830</b>	<b>718</b>	<b>2,843</b>	<b>12,506</b>	<b>117,749</b>
Balance at 1 January 2017	101,339	(563)	(604)	56	1,963	5,361	531	8,389	16,244	116,472
Profit for the year	-	-	-	-	-	-	-	10,141	10,141	10,141
Dividends declared for 2016	-	-	-	-	-	-	-	(5,051)	(5,051)	(5,051)
Transfer to zakah fund	-	-	-	-	-	-	-	(137)	(137)	(137)
Purchase of treasury shares	-	(301)	-	-	-	-	-	-	-	(301)
Shares allocated during the year	-	-	106	42	-	-	-	-	-	148
Net movement in investment securities fair value reserve	-	-	-	-	-	-	214	-	214	214
Net movement in real estate fair value reserve	-	-	-	-	-	784	-	-	784	784
Transfer to statutory reserve	-	-	-	-	1,014	-	-	(1,014)	-	-
Balance at 31 December 2017	101,339	(864)	(498)	98	2,977	6,145	745	12,328	22,195	122,270

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

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2018

	<i>Qard Hasan receivables BD'000</i>	<i>Funds available for Qard Hasan BD'000</i>	<i>Total BD'000</i>
<b>Balance at 1 January 2018</b>	<b>71</b>	<b>57</b>	<b>128</b>
Uses of Qard fund			
Marriage	10	(10)	-
Others (Waqf)	26	(26)	-
<b>Total uses during the year</b>	<b>36</b>	<b>(36)</b>	<b>-</b>
Repayments	(36)	36	-
<b>Balance at 31 December 2018</b>	<b>71</b>	<b>57</b>	<b>128</b>
Balance at 1 January 2017	65	63	128
Uses of Qard fund			
Marriage	13	(13)	-
Others (Waqf)	24	(24)	-
<b>Total uses during the year</b>	<b>37</b>	<b>(37)</b>	<b>-</b>
Repayments	(31)	31	-
Balance at 31 December 2017	71	57	128
		<b>2018 BD'000</b>	<b>2017 BD'000</b>
<b>Sources of Qard fund</b>			
Contribution by the Bank		125	125
Donation		3	3
		<b>128</b>	<b>128</b>

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2018

	<b>2018</b> <b>BD'000</b>	<b>2017</b> <b>BD'000</b>
<b>Sources of zakah and charity funds</b>		
Undistributed zakah and charity funds at the beginning of the year	<b>259</b>	222
Non-Islamic income / late payment fee	<b>374</b>	510
Contributions by the Bank for zakah	<b>265</b>	137
Contributions by the Bank for donations	<b>200</b>	-
<b>Total sources of zakah and charity funds during the year</b>	<b>1,098</b>	869
<b>Uses of zakah and charity funds</b>		
Philanthropic societies	<b>366</b>	253
Aid to needy families	<b>381</b>	357
Islamic events	<b>37</b>	-
<b>Total uses of funds during the year</b>	<b>784</b>	610
<b>Undistributed zakah and charity funds at the end of the year</b>	<b>314</b>	259