BAHRAIN ISLAMIC BANK B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

Commercial registration	:	9900 (registered with Central Bank of Bahrain as a retail Islamic bank)
Board of directors	:	Dr. Esam Abdulla Fakhro, *Chairman* Brig. Khalid Mohammed Al Mannai, *Vice Chairman* Talal Ali Al Zain Khalil Ebrahim Nooruddin Mohammed Ahmed Al Khaja Khalid Yousif Abdulrahman Ebrahim Husain Ebrahim Aljassmi Othman Ebrahim Naser Al Askar Muhammad Zarrug Rajab
Office	:	Salam Tower, Diplomatic Area PO Box 5240 Manama, Kingdom of Bahrain Telephone 17 546-111, Telefax 17 535-808
Auditors	:	KPMG Fakhro

Bahrain Islamic Bank B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2016

CONTENTS

PO Box 5240, Manama
Kingdom of Bahrain
T +973 17 546 111
F +973 17 535 808
www.bisb.com

صندوق بريد ٥٢٤٠، المنامة
مملكة البحرين
هاتف ١١١ ٥٤٦ ١٧ ٩٧٣+
فاكس ٨٠٨ ٥٣٥ ١٧ ٩٧٣+

بنك البحرين الإسلامي BisB

Board of Directors Report

CHAIRMAN'S STATEMENT

In the name of Allah, the Most Beneficent, the Most Merciful. Prayers and Peace be upon the Last Apostle and Messenger, Our Prophet Mohammed, His Comrades and Relatives.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bahrain Islamic Bank (BisB) for the year ended 31 December 2016. The five-year plan for the Bank is now in its third year, and we have added the Ishraq five pillars of performance to our Back to Basics strategy, reorganizing our financial position; streamlining and optimizing processes; focusing on digitization; investing in people and talents; and differentiating through superior customer service. The growing impact of these initiatives is being reflected in positive improvements in all areas of BisB.

In an increasingly competitive local banking market and uncertain global economic environment, stable earnings resulted in revenues of BD 41.7 million and net profit for the year of BD 8.4 million. Earnings per share were 8.41 fils compared with 13.36 fils in 2015.

Balance sheet footings grew to BD 1,042 million with owners' equity of BD 116 million. Liquid assets remained strong at BD 90.7 million. The Bank has maintained its conservative approach to impairment provisioning by providing BD 9.7 million in 2016 versus BD 9 million in the previous year.

The retail and corporate banking businesses performed well, growing their financing portfolio by 12.1% and 12.3 % respectively. The emphasis on customer service underpins much of that success, with a newly-formed dedicated unit for service quality assurance and real time response to customer issues.

In consonance with our desire to maintain the highest measure of prudent risk management within the Bank, we have strengthened further the quality of our risk management processes as well as our corporate governance framework. Training and development of our people at all levels of personnel, coupled with enhanced cutting edge technology systems, heightens our capability to deliver the best possible customer experience.

The Board would like to place on record its grateful thanks both to my predecessor as Chairman, Abdul Razaq Al Qassim, who retired from the Board in March 2016, and also to Fatima Abdulla Budhaish, for their valuable contributions during their tenure as Directors of BisB. We welcome Khaled Yusuf AbdulRahman as incoming Director. The new Board will endeavour to continue the solid progress already achieved.

PO Box 5240, Manama
Kingdom of Bahrain
T +973 17 546 111
F +973 17 535 808
www.bisb.com

صندوق بريد ٥٢٤٠، المنامة
مملكة البحرين
هاتف ١١١ ٥٤٦ ١٧ ٩٧٣+
فاكس ٨٠٨ ٥٣٥ ١٧ ٩٧٣+

بنك البحرين الإسلامي BISB

Despite the economic difficulties in the region, the Kingdom of Bahrain remains an attractive destination for corporate and financial businesses. However, 2017 will not be without its challenges. Lingering uncertainty over the price of oil, and the attendant pressures on liquidity, is expected to continue upward pressure on banks' cost of funds. The immediacy of civil conflict in the region, and an international economic malaise, all give cause for caution. However, with the strong platform of a focused business strategy and a dedicated management team, we are optimistic about the direction of the Bank.

On behalf of the shareholders, the Directors express their grateful thanks and sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa-the King of Bahrain, to His Royal Highness Shaikh Khalifa bin Salman Al Khalifa – the Prime Minister, to His Royal Highness Shaikh Salman bin Hamad Al Khalifa – the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, and to all Government ministries and authorities – especially the Central Bank of Bahrain and the Ministry of Industry, Commerce & Tourism, for their constant guidance, kind consideration and support.

The Directors' appreciation of the advice and supervision of BisB's Sharia'a Supervisory Board is also acknowledged, as is the unstinting dedication and service from the management and staff of the Bank, whose commitment contributes so much to the health of the organization. To our business partners and loyal customers, we thank each and every one for their continuous invaluable support and confidence in Bahrain Islamic Bank.

Dr. Esam Abdulla Fakhro
Chairman of the Board

12 February 2017

PO Box 5240, Manama
Kingdom of Bahrain
T +973 17 546 111
F +973 17 535 808
www.bisb.com

صندوق بريد ٥٢٤٠، المنامة
مملكة البحرين
هاتف ١١١ ٥٤٦ ١٧ ٩٧٣+
فاكس ٨٠٨ ٥٣٥ ١٧ ٩٧٣+

بنك البحرين الإسلامي BISB

Sharia'a Supervisory Board report
for the year ended on 31/12/2016

In The Name of Allah, most Gracious,
most Merciful Peace and Blessings Be Upon His Messenger.

To the shareholders of Bahrain Islamic Bank B.S.C.

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

The Sharia'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Sharia perspective for the financial year ending on 31st December 2016, in fulfillment to the mandate conferred upon it by BisB's Articles of Association:

- The Sharia'a Supervisory Board monitored the operations, related to the Bank throughout the year ended on 31st December 2016 to express opinion on the Bank's adherence to the provisions and principles of Islamic Sharia'a in its activities by following the fatwas, decisions and the specific guidelines issued from our side.
- The Sharia'a Supervisory Board believes that ensuring the conformity of Bank's activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report to you.
- We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a and Fatwas and decisions of the Sharia'a Board.
- Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Sharia'a Department in conformity with the methodology approved by the Sharia'a Board.
- The Sharia'a Internal Audit department performed its mission of auditing the transactions executed by the Bank and submitted its periodic reports to the Sharia'a Supervisory Board, which confirmed the Bank's adherence in its dealings and investments with the Sharia'a Board's fatwas and decisions.
- The 14 reports submitted by Internal Sharia Audit Department to the Sharia'a Supervisory Board included results of auditing the files, contracts, executed deals

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

in fulfillment to the Sharia'a Board annual approved audit plan. The Sharia'a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Sharia principles and Fatwas and decisions of the Sharia'a Board.

- The Sharia Board and its Committees held (14) meetings during the year and issued (73) decisions and fatwas, and approved (58) contracts.
- The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2016, the income statement, the attached notes and the Zakat calculation methods. The Sharia'a Supervisory Board believes that:

1. All the Financial Statements inspected by the Sharia'a Board conform to what has been approved by the Board, and to the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions AAOIFI.
2. Contracts, and transactions conducted by the Bank throughout were in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.
3. The distribution of profit and allocation of losses on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board and in accordance to Islamic Sharia.
4. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'a, have been directed to the Charity and Donations Fund.
5. Zakah was calculated according to the provisions and principles of Islamic Sharia'a, by the net invested assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the financial report.
6. The Bank was committed to the Sharia'a standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).

We pray that Allah may grant all of us further success and prosperity.

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

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 subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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 Group.

Report on other regulatory requirements
As required by the Bahrain 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 statement is consistent with the consolidated financial statements;
c) 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, 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

KPMG Fakhro
Partner Registration No. 100
12 February 2017

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	*2016 BD'000*	*2015 BD'000*
ASSETS			
Cash and balances with banks and Central Bank	3	**63,208**	61,114
Placements with financial institutions	4	**63,805**	73,150
Financing assets	5	**526,637**	475,648
Investment securities	6	**145,731**	130,635
Ijarah Muntahia Bittamleek	8	**151,752**	113,938
Ijarah rental receivables	9	**8,618**	19,815
Investment in associates	7	**26,487**	28,116
Investment in real estate	11	**28,066**	43,601
Property and equipment	10	**15,881**	16,640
Other assets	12	**12,003**	13,691
TOTAL ASSETS		**1,042,188**	976,348
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		**103,874**	93,516
Customers' current accounts		**152,647**	157,300
Other liabilities	13	**14,879**	16,616
Total Liabilities		**271,400**	267,432
Equity of Investment Accountholders	14	**654,316**	599,404
Owners' Equity			
Share capital	15	**101,339**	97,441
Treasury shares	15	**(563)**	(563)
Shares under employee share incentive scheme		**(604)**	(879)
Share premium		**56**	2,794
Reserves		**16,244**	10,719
Total Owners' Equity		**116,472**	109,512
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**1,042,188**	976,348

The consolidated financial statements, which consist of pages 6 to 47, were approved by the Board of Directors on 12 February 2017 and signed on its behalf by:

Dr. Esam Abdulla Fakhro Chairman	Khalid Mohammed Al Mannai Vice Chairman	Hassan Amin Jarrar Chief Executive Officer

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

Bahrain Islamic Bank B.S.C.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Note	*2016* *BD'000*	*2015* *BD'000*
INCOME			
Income from financing	18	**34,881**	33,530
Income from investment in Sukuk		**4,096**	3,659
Total income from jointly financed assets		**38,977**	37,189
Return on equity of investment accountholders		**(29,301)**	(29,961)
Group's share as Mudarib		**22,170**	24,774
Net return on equity of investment accountholders	14.5	**(7,131)**	(5,187)
Group's share of income from jointly financed assets (both as mudarib and investor)		**31,846**	32,002
Expense on placements from financial institutions		**(1,225)**	(546)
Fee and commission income		**6,768**	5,955
Income from investment securities	19	**739**	739
Income from investment in real estate	20	**(563)**	1,194
Share of results of associates, net	7	**(437)**	(711)
Other income	21	**4,544**	3,086
Total income		**41,672**	41,719
EXPENSES			
Staff costs		**11,181**	10,212
Depreciation	10	**1,519**	1,554
Other expenses	22	**10,820**	9,795
Total expenses		**23,520**	21,561
Profit before impairment allowances		**18,152**	20,158
Impairment provisions on financing, net	23.1	**(2,091)**	(5,203)
Impairment provisions on investments, net	23.2	**(7,641)**	(3,750)
PROFIT FOR THE YEAR		**8,420**	11,205
BASIC AND DILUTED EARNINGS PER SHARE (fils)	25	**8.41**	13.36

Dr. Esam Abdulla Fakhro
Chairman

Khalid Mohammed Al Mannai
Vice Chairman

Hassan Amin Jarrar
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 BD'000	2015 BD'000
OPERATING ACTIVITIES			
Profit for the year		8,420	11,205
Adjustments for non-cash items:			
Depreciation	10	1,519	1,554
Impairment provisions on financing, net	23.1	2,091	5,203
Impairment provisions on investments, net	23.2	7,641	3,750
Impairment charge on investment in real estate	20	82	339
Loss / (gain) on sale of investment in real estate	20	843	(1,166)
Share of results of associates, net	7	437	711
Gain on disposal of property and equipment		-	(72)
Operating profit before changes in operating assets and liabilities		21,033	21,524
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		300	(3,010)
Financing assets		(52,789)	(71,256)
Ijarah Muntahia Bittamleek		(26,697)	(19,165)
Other assets		1,822	(8,885)
Customers' current accounts		(4,653)	3,821
Other liabilities		(1,711)	102
Placements from financial institutions		10,358	17,946
Equity of investment accountholders		54,912	48,859
Net cash from / (used in) operating activities		2,575	(10,064)
INVESTING ACTIVITIES			
Purchase of investment in real estate		-	(1,092)
Disposal of investment in real estate		12,868	11,980
Purchase of investment securities		(51,681)	(52,546)
Purchase of property and equipment		(760)	(1,481)
Disposal of property and equipment		-	506
Proceeds from disposal of investment securities		30,073	43,382
Net cash (used in) / from investing activities		(9,500)	749
FINANCING ACTIVITIES			
Rights issue		-	19,888
Dividends paid		(26)	(4)
Net cash (used in) / from financing activities		(26)	19,884
NET CHANGE IN CASH AND CASH EQUIVALENTS		(6,951)	10,569
Cash and cash equivalents at 1 January		97,687	87,118
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		90,736	97,687
Cash and cash equivalents at year end comprise of:			
Cash on hand	3	12,829	12,011
Balances with CBB, excluding mandatory reserve deposits	3	3,877	4,936
Balances with banks and other financial institutions excluding restricted balances	3	10,225	7,590
Placements with financial institutions with original maturities less than 90 days	4	63,805	73,150
		90,736	97,687

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2016

	Share capital BD'000	Treasury shares BD'000	Shares under employee share incentive scheme BD'000	Share premium BD'000	Reserves: Statutory reserve BD'000	Reserves: General reserve BD'000	Reserves: Real estate fair value reserve BD'000	Reserves: Investments fair value reserve BD'000	Reserves: Retained earnings / (accumulated losses) BD'000	Reserves: Total reserves BD'000	Equity attributable to owners of the parent BD'000	Non-controlling interest BD'000	Total owners' equity BD'000
Balance at 1 January 2016	97,441	(563)	(879)	2,794	1,121	-	7,085	621	1,892	10,719	109,512	-	109,512
Profit for the year	-	-	-	-	-	-	-	-	8,420	8,420	8,420	-	8,420
Bonus shares	3,898	-	(23)	(2,794)	-	-	-	-	(1,081)	(1,081)	-	-	-
Shares allocated during the year	-	-	298	56	-	-	-	-	-	-	354	-	354
Net movement in investments fair value reserve	-	-	-	-	-	-	-	(90)	-	(90)	(90)	-	(90)
Net movement in real estate fair value reserve	-	-	-	-	-	-	(1,724)	-	-	(1,724)	(1,724)	-	(1,724)
Transfer of profit to statutory reserve	-	-	-	-	842	-	-	-	(842)	-	-	-	-
Balance at 31 December 2016	**101,339**	**(563)**	**(604)**	**56**	**1,963**	**-**	**5,361**	**531**	**8,389**	**16,244**	**116,472**	**-**	**116,472**
Balance at 1 January 2015	93,967	(563)	-	-	11,809	1,000	7,361	1,101	(35,591)	(14,320)	79,084	11	79,095
Profit for the year	-	-	-	-	-	-	-	-	11,205	11,205	11,205	-	11,205
Shares issued during the year	940	-	(940)	-	-	-	-	-	-	-	-	-	-
Shares allocated during the year	-	-	61	30	-	-	-	-	-	-	91	-	91
Rights issue	17,094	-	-	2,794	-	-	-	-	-	-	19,888	-	19,888
Write off of accumulated losses	(14,560)	-	-	(30)	(11,809)	(1,000)	-	-	27,399	14,590	-	-	-
Net movement in investments fair value reserve	-	-	-	-	-	-	-	(480)	-	(480)	(480)	-	(480)
Net movement in real estate fair value reserve	-	-	-	-	-	-	(276)	-	-	(276)	(276)	-	(276)
Transfer of profit to statutory reserve	-	-	-	-	1,121	-	-	-	(1,121)	-	-	-	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(11)	(11)
Balance at 31 December 2015	97,441	(563)	(879)	2,794	1,121	-	7,085	621	1,892	10,719	109,512	-	109,512

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

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2016

	Qard Hasan receivables BD'000	Funds available for Qard Hasan BD'000	Total BD'000
Balance at 1 January 2016	**60**	**68**	**128**
Uses of Qard fund			
Marriage	5	(5)	-
Others (Waqf)	21	(21)	-
Total uses during the year	**26**	**(26)**	**-**
Repayments	(21)	21	-
Balance at 31 December 2016	**65**	**63**	**128**
Balance at 1 January 2015	80	48	128
Uses of Qard fund			
Marriage	9	(9)	-
Others (Waqf)	9	(9)	-
Total uses during the year	18	(18)	-
Repayments	(38)	38	-
Balance at 31 December 2015	60	68	128

	2016 BD'000	2015 BD'000
Sources of Qard fund		
Contribution by the Bank	125	125
Donation	3	3
	128	128

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2016

	2016 BD'000	2015 BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the year	**472**	282
Non-Islamic income / late payment fee	**248**	616
Donations	**1**	-
Total sources of zakah and charity funds during the year	**721**	898
Uses of zakah and charity funds		
Philanthropic societies	**139**	103
Aid to needy families	**360**	323
Total uses of funds during the year	**499**	426
Undistributed zakah and charity funds at the end of the year	**222**	472

1 REPORTING ENTITY

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank operates under an Islamic retail banking license issued by the Central Bank of Bahrain ("CBB"). The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has nine branches (2015: ten), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the results of the Bank and its subsidiaries (together the "Group"). The Bank holds 100% of the share capital of Abaad Real Estate Company B.S.C. (c).

Abaad Real Estate Company B.S.C. (c) ("Abaad")
Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad started operations in 2007. The main activity of Abaad is investment in real estate (in accordance with the Islamic Shari'a rules and principles).

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors issued on 12 February 2017.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous years.

a. New standards, amendments, and interpretations

New standards, amendments, and interpretations effective from 1 January 2016:
FAS 27 – Investments Accounts
FAS 27 Investments accounts was issued in December 2014 replacing FAS 5 – 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 – 'Equity of Investment Account Holders and their Equivalent'. This standard is effective for financial periods beginning 1 January 2016. The adoption of this standard did not have a significant impact on the financial statements of the Group. Additional disclosures are set out in note 14.

New standards, amendments and interpretations issued but not yet effective
No new standards, amendments to standards and interpretations have been issued but not yet effective for annual periods beginning on or after 1 January 2017.

Early adoption
The Group did not early adopt any new standards during the year.

b. Statement of Compliance
The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), and the Bahrain Commercial Companies Law. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses guidance from the relevant International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for "investment in real estate", "equity type instruments carried at fair value through equity" and "equity type instruments carried at fair value through income statement" that have been measured at fair value.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2 dd.

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), which is also the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

d. Basis of consolidation

Subsidiaries are all entities (including special purpose entities) controlled by the Group. 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. Subsidiaries are consolidated from the date on which control is transferred to the Group to the date that control seizes.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

e. Cash and cash equivalents

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain excluding mandatory reserve deposits, balances with banks and other financial institutions and placements with financial institutions with original maturities of 90 days or less when acquired.

f. Placements with financial institutions

Placements with financial institutions comprise commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated at amortised cost net of deferred profits and provision for impairment, if any. Wakala receivables are stated at amortised cost less provision for impairment, if any.

g. Financing assets

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha and Musharaka. Financing assets are recognised on the date at which they are originated and carried at their amortised cost less impairment allowance, if any.

h. Murabaha financing

Murabaha financing consist mainly of deferred sales transactions (Murabaha) which are stated net of deferred profits and provisions for impairment, if any.

Murabaha financing are sales on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

i. Musharaka financing

Musharaka financing are stated at the fair value of consideration given less impairment, if any.

Musharaka financing are a form of capital partnership. Musharaka financing capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Investment securities

Investment securities comprise debt type instruments carried at amortised cost, equity type instruments carried at fair value through equity.

All investments securities, are initially recognised at fair value, being the value of the consideration given including transaction costs directly attributable to the acquisition, except in the case of investments carried at fair value through income statement, where transaction costs are expensed in the consolidated income statement.

Debt type instruments carried at amortised cost

These are investments which have fixed or determinable payments of profit and capital. Subsequent to initial recognition, these are measured at amortised cost using the effective profit rate method less impairment, if any. Any gain or loss on such instruments is recognised in the consolidated income statement when the instruments are de-recognised or impaired.

Equity type instruments carried at fair value through equity

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence residual interest in the assets of entity after reducing all its liabilities. On initial recognition equity-type instruments that are not designated to fair value through income statement shall be classified as investments at fair value through equity.

Subsequent to acquisition, these are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is considered as impaired. On derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the consolidated income statement for the year.

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

k. Measurement principles

Fair value measurement

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date.

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

Investments classified at fair value through equity where there is no quoted price or the Bank is unable to determine a reliable measure of fair value on a continuing basis, such investments are stated at cost less impairment allowances.

Amortised cost

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 amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through use of an allowance account) for impairment or uncollectability. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Investment in associates

Associates are all entities in which the Group holds, between 20% and 50% of the voting rights and exercises significant influence, but not control or joint control, over the financial and operating policies of the entities. Investment in associates are accounted for using the equity method of accounting.

Investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee 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 investee arising from the changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, 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 associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates and the carrying value and recognises this amount in the consolidated income statement.

Accounting policies of the associates are consistent with the policies adopted by the Group.

m. Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. 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 (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the income statement.

n. Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured to fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated income statement. If there are unrealised losses that have been recognised in the consolidated income statement in previous financial periods, the current period unrealised gain shall be recognised in the consolidated income statement to the extent of crediting back such previous losses in the consolidated income statement. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated income statement.

o. Property and equipment

Property and equipment is recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated income statement as incurred. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows;

Buildings	25 to 35 years
Fixtures and fittings	5 years
Equipment	5 years
Furniture	5 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Equity of investment accountholders

Equity of investment account holders are funds held by the Bank in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Bank to invest the account holders' funds in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Bank charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Bank's share of income as a Mudarib. The allocation of income is determined by the management of the Bank within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Bank and are not charged separately to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH.

Only the income earned on pool of assets funded from IAH are allocated between the owners' equity and investment account holders.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Bank out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Bank out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

q. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib share, in order to cater for future losses for equity of investment accountholders.

r. Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders after taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment accountholders.

s. Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net invested funds method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment accountholders and other accounts is the responsibility of investment accountholders.

t. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from 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 obligation.

u. Dividends and board remuneration

Dividends are recognised as liabilities in the year in which they are declared / approved by the shareholders.

v. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Derecognition of financial assets and liabilities (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities
A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

w. Treasury shares
These are own equity instruments of the Group which are reacquired through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase or sale of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

x. Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

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

z. Income recognition

Murabaha and Wakala
Income from Murabaha and Wakala contracts is recognised on a time-apportioned basis over the period of the contract using the effective profit rate method.

Musharaka
Profit or losses in respect of the Bank's share in Musharaka financing transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the Musharaka agreement.

Sukuk
Income from Sukuk is recognised using the effective profit rate over the term of the instrument.

Placements with financial institutions
Income on placements from financial institutions is recognised proportionately over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

Ijarah Muntahia Bittamleek
Income from Ijarah Muntahia Bittamleek is recognised proportionately over the lease term.

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

Fee and commission income
Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

aa. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated income statement.

Translation gains or losses on non-monetary items carried at fair value are included in owners' equity as part of the fair value adjustment.

bb. Impairment of financial assets

An assessment is made at each consolidated financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of financing facility or advance by the Group on the 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 borrower or issuers in the group or economic conditions that correlate with the defaults in the group. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated income statement. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. Impairment is determined as follows:

(a) For equity-type securities carried at fair value through equity, a significant or prolonged decline in fair value below its cost is an objective evidence of impairment. If such evidence exists, impairment is measured as the difference between acquisition cost and current fair value, less any impairment loss previously recognised in the consolidated income statement.

For equity type instruments carried at fair value through equity, impairment losses recognised in the consolidated income statement are subsequently reversed through equity.

For investments classified at fair value through equity but carried at cost less impairment due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the carried value of the investment.

(b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

These include debt-type instruments, financing assets and receivables. Losses are recognised in 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 income statement. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific assets and collective level. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant accounts are written off. If the amount of impairment loss subsequently decreases and decrease can be related objectively to an event occurring after impairment was recognized, then the previously recognised impairment loss is reversed through income statement.

All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar credit risk characteristics. In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

cc. Use of estimates and judgements in preparation of the consolidated financial statements

In the process of applying the Group's accounting policies, management has made estimates and judgements in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Going concern

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

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 debt type instruments carried at fair value through equity or amortised cost, or equity-type instruments carried at fair value through equity or fair value through income statement. 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 [refer note 2.j].

Impairment of equity investments

The Group determines that equity securities carried at fair value through equity are impaired when there is a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

In case of quoted equity securities, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 9 months as prolonged.

For unquoted equity investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment. In making this judgment, the Bank evaluates among other factors, evidence of a deterioration in the financial health of the investee, and operational and financing cash flows. 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.

Impairment of financing assets

Financing assets are evaluated for impairment on a basis described in accounting policy, refer to note 2.bb. 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 and the net realisable value of any underlying assets/ collaterals. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department.

For the purposes of a collective evaluation of impairment, financing assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, collateral type, past-due status and other relevant factors). The methodology and assumptions used for the grading process and estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In view of the management, the current level of provisioning is adequate and no additional impairment allowances are required on a collective basis.

dd. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

ee. Customers' current accounts

Balances in current (non-investment) accounts are recognised when received by the Bank. The transactions are measured at the cash equivalent amount received by the Bank at the time of transaction are measured at the cash equivalent amount received by the Bank at the time of contracting. At the end of the accounting period, the accounts are measured at their book value.

ff. Employees' benefits

i) Short-term benefits

Short-term employee benefit obligations 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 as 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

Pension and other benefits for Bahraini employees are covered by Social Insurance Organisation Scheme, which is a "defined contribution scheme" in nature, 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 income statement when they are due.

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under Bahraini labour law, 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 "defined benefits scheme" and any increase or decrease in the benefit obligation is recognised in the Income Statement.

The Bank also operates a voluntary employee saving scheme under which the Bank and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by the Board of trustees who are employees of the Bank. The scheme is in the nature of defined contribution scheme and contributions by the Bank are recognised as an expense in the income statement when they are due.

iii) Share based employee incentive scheme

The grant-date fair value of equity settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share based awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

gg. Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

hh. Repossessed assets

In certain circumstances, property is repossessed following the foreclosure on financing facilities that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'.

ii. Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 per cent 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

jj. URIA protection scheme

Investment accounts held with the Bank's Bahrain operations are covered by the regulation protecting URIA issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations governing the establishment of a URIA Protection Scheme and a URIA Protection Board.

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2016 BD'000	*2015 BD'000*
Cash on hand	**12,829**	12,011
Balances with CBB, excluding mandatory reserve deposits	**3,877**	4,936
Balances with banks and other financial institutions	**12,737**	10,102
	29,443	27,049
Mandatory reserve with CBB	**33,765**	34,065
	63,208	61,114

The mandatory reserve with CBB is not available for use in the day-to-day operations.

Balances with banks and other financial institutions includes an amount of BD 2,512 thousand which is not available for use in the day-to-day operations.

4 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	2016 BD'000	*2015 BD'000*
Commodity Murabaha	**43,511**	59,116
Deferred profits	**(27)**	(7)
	43,484	59,109
Wakala	**20,321**	14,041
	63,805	73,150

5 FINANCING ASSETS

	2016 BD'000	*2015 BD'000*
Murabaha (note 5.1)	**417,098**	371,881
Musharaka (note 5.2)	**109,539**	103,767
	526,637	475,648

5.1 Murabaha

	2016 BD'000	*2015 BD'000*
Tasheel	**225,868**	226,578
Tawarooq	**136,348**	128,068
Altamweel Almaren	**68,355**	41,008
Letters of credit refinance	**29,198**	18,343
Motor vehicles Murabaha	**13,058**	14,769
Credit cards	**15,894**	13,920
Others	**70**	230
	488,791	442,916
Qard fund	**65**	60
Gross receivables	**488,856**	442,976
Deferred profits	**(45,781)**	(46,808)
Provision for impairment	**(25,977)**	(24,287)
	417,098	371,881

5 FINANCING ASSETS (continued)

5.1 Murabaha (continued)

Non-performing Murabaha financing outstanding as of 31 December 2016 amounted to BD 30,951 thousand (2015: BD 19,011 thousand).

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

The composition of the Murabaha financing portfolio before provision for impairment by sector is as follows:

	2016 BD'000	2015 BD'000
Commercial	73,780	51,094
Financial institutions	16,214	4,530
Others including retail	353,082	340,544
	443,076	396,168

The Group exposures of Murabaha financing portfolio is concentrated in Middle East.

5.2 Musharaka

	2016 BD'000	2015 BD'000
Musharaka in real estate	110,263	106,761
Provision for impairment	(724)	(2,994)
	109,539	103,767

Non-performing Musharaka financing outstanding as of 31 December 2016 amounted to BD 4,731 thousand (2015: BD 4,938 thousand).

6 INVESTMENT SECURITIES

	2016 BD'000	2015 BD'000
i) Debt type instruments		
Quoted Sukuk - carried at amortised cost		
Balance at 1 January	20,486	18,819
Acquisitions	41,254	2,740
Disposals and redemptions	(114)	(1,073)
Balance at 31 December	61,626	20,486
Unquoted Sukuk - carried at amortised cost		
Balance at 1 January	80,295	66,989
Acquisitions	10,427	49,806
Disposals and redemptions	(29,959)	(36,500)
	60,763	80,295
Provision for impairment	(9,106)	(4,914)
Balance at 31 December	51,657	75,381
ii) Equity type instruments		
Quoted shares - at fair value through equity		
Balance at 1 January	2,392	2,392
Provision for impairment	(1,704)	(1,373)
Balance at 31 December	688	1,019
Unquoted shares - at cost less impairment		
At 1 January	24,963	29,201
Write off	-	(4,238)
Provision for impairment	(7,371)	(5,418)
Balance at 31 December	17,592	19,545
Unquoted managed funds - at cost less impairment		
Balance at 1 January	14,444	36,541
Foreign currency translation changes	(36)	(301)
Disposals	-	(5,809)
Write off	(240)	(15,987)
Provision for impairment	-	(240)
Balance at 31 December	14,168	14,204
Total net investment securities	145,731	130,635

7 INVESTMENT IN ASSOCIATES

	2016 BD'000	2015 BD'000
At 1 January	28,116	30,835
Share of results of associates, net	(437)	(711)
Share of changes in investee's equity	(92)	(366)
Provision for impairment	(1,100)	(1,642)
At 31 December	**26,487**	28,116

Summarised financial information of associates that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2016 BD'000	2015 BD'000
Total assets	209,079	217,141
Total liabilities	79,670	85,954
Total revenues	5,925	9,057
Total net loss	(856)	(51)

Investment in associates comprise:

Name of associate	*Ownership %*	*Country of incorporation*	*Nature of business*
*Takaful International Company B.S.C.**	*22.75%*	*Bahrain*	*Takaful International Company B.S.C. was incorporated in 1989, and carries out Takaful and Retakaful activities in accordance with the teachings of Islamic Shari'a under a license issued by the Central bank of Bahrain, the regulator.*
Liquidity Management Centre B.S.C. (c)	*25.00%*	*Bahrain*	*Liquidity Management Centre B.S.C. (c) was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that allow Islamic financial services institutions to effectively manage their assets and liabilities.*
Arabian C Real Estate Company	*19.00%*	*Kuwait*	*Arabian C Real Estate Company is a Kuwaiti Shareholding Company incorporated in accordance with the Kuwaiti Commercial Companies law. The company's activity focuses on real estate development and the overall management of a variety of strategic investments in the real estate and infrastructure sectors in GCC/MENA region.*
Al Dur Energy Investment Company	*29.41%*	*Bahrain*	*Al Dur Energy Investment Company is an exempt company with limited liability incorporated in the Cayman Islands on 10 June 2009 and operates under registration number 227032. The company operates in the Kingdom of Bahrain with the sole purpose of holding a 15% indirect interest in a power and water plant project company, Al Dur Power and Water Company B.S.C.(c), in the Kingdom of Bahrain.*

* Takaful International Company B.S.C. is a listed company on the Bahrain Bourse. The latest available quoted price of BD 0.100 per share was as of 22 April 2015, no further trades have taken place on the company's shares since that date. The estimate fair value of the investment based on this price is BD 1,422 thousand (2014: BD 2,062 thousand).

8 IJARAH MUNTAHIA BITTAMLEEK

	2016				2015			
	Properties BD'000	Aviation related assets BD'000	Others BD'000	Total BD'000	Properties BD'000	Aviation related assets BD'000	Others BD'000	Total BD'000
Cost:								
At 1 January	147,165	7,540	3,253	157,958	124,749	7,540	6,130	138,419
Additions	47,648	-	-	47,648	42,464	-	-	42,464
Settlements / adjustments	(16,439)	-	(750)	(17,189)	(20,048)	-	(2,877)	(22,925)
At 31 December	178,374	7,540	2,503	188,417	147,165	7,540	3,253	157,958
Accumulated depreciation:								
At 1 January	35,087	7,540	1,393	44,020	47,031	7,540	3,990	58,561
Charge for the year	10,495	-	1,110	11,605	10,749	-	-	10,749
Settlements / adjustments	(11,646)	(7,314)	-	(18,960)	(22,693)	-	(2,597)	(25,290)
At 31 December	33,936	226	2,503	36,665	35,087	7,540	1,393	44,020
Net book value:								
As at 31 December	144,438	7,314	-	151,752	112,078	-	1,860	113,938

9 IJARAH RENTAL RECEIVABLES

	2016 BD'000	2015 BD'000
Gross Ijarah rental receivables	21,888	33,005
Provision for impairment	(13,270)	(13,190)
	8,618	19,815

Non-performing Ijarah rental receivables as of 31 December 2016 is BD 17,630 thousand (2015: BD 31,452 thousand).

10 PROPERTY AND EQUIPMENT

	2016						
	Lands BD'000	***Buildings BD'000***	***Fixture and fitting BD'000***	***Equipment BD'000***	***Furniture BD'000***	***Work in progress BD'000***	***Total BD'000***
Cost:							
At 1 January	**6,755**	**7,651**	**3,695**	**9,782**	**869**	**516**	**29,268**
Additions	**-**	**-**	**119**	**585**	**14**	**42**	**760**
At 31 December	**6,755**	**7,651**	**3,814**	**10,367**	**883**	**558**	**30,028**
Depreciation:							
At 1 January	**-**	**1,699**	**2,853**	**7,393**	**683**	**-**	**12,628**
Charge for the year	**-**	**263**	**291**	**905**	**60**	**-**	**1,519**
At 31 December	**-**	**1,962**	**3,144**	**8,298**	**743**	**-**	**14,147**
Net Book Value	**6,755**	**5,689**	**670**	**2,069**	**140**	**558**	**15,881**

	2015						
	Lands BD'000	*Buildings BD'000*	*Fixture and fitting BD'000*	*Equipment BD'000*	*Furniture BD'000*	*Work in progress BD'000*	*Total BD'000*
Cost:							
At 1 January	7,143	7,387	3,393	9,065	823	410	28,221
Additions	-	264	302	763	46	106	1,481
Disposals	(388)	-	-	(46)	-	-	(434)
At 31 December	6,755	7,651	3,695	9,782	869	516	29,268
Depreciation:							
At 1 January	-	1,439	2,517	6,550	614	-	11,120
Charge for the year	-	260	336	889	69	-	1,554
Relating to disposed assets	-	-	-	(46)	-	-	(46)
At 31 December	-	1,699	2,853	7,393	683	-	12,628
Net Book Value	6,755	5,952	842	2,389	186	516	16,640

11 INVESTMENT IN REAL ESTATE

	2016 BD'000	2015 BD'000
Land	25,777	41,006
Buildings	2,289	2,595
	28,066	43,601

	2016 BD'000	2015 BD'000
At 1 January	43,601	53,934
Capitalized expediture	-	1,092
Disposal	(13,728)	(10,814)
Fair value changes	(1,807)	(611)
At 31 December	28,066	43,601

Investment in real estate comprises properties located in the Kingdom of Bahrain and the United Arab Emirates.

Investment in real estate held for capital appreciation is stated at fair value as at 31 December, which has been determined based on valuations performed by independent third party property valuers who have the qualification and experience of valuing similar properties in the same location. Fair value of Investments in real estate is calssified as category 2 of fair value hierarchy.

12 OTHER ASSETS

	2016 BD'000	2015 BD'000
Repossessed assets	6,916	5,245
Receivables	2,438	4,761
Staff advances	1,665	1,324
Prepaid expenses	945	696
Other	39	1,665
	12,003	13,691

13 OTHER LIABILITIES

	2016 BD'000	2015 BD'000
Managers' cheques	4,748	3,786
Payable to vendors	2,837	1,626
Accrued expenses	2,990	3,312
Life insurance (Takaful) fees payable	1,568	1,844
Dividends payable	776	802
Zakah and charity fund	222	472
Other	1,738	4,774
	14,879	16,616

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group comingles the Investment account holders' (IAH) funds with the owners' equity. In line with its policy, the Group utilizes the funds from IAH to finance assets.

14.1 Equity of investment accountholders balances

Type of Equity of Investment Accountholders	*2016* *BD'000*	*2015* *BD'000*
Customer investment accounts		
Balances on demand	**313,612**	290,862
Contractual basis	**340,704**	308,542
	654,316	599,404

14.2 Assets in which IAH funds were invested

Assets in which IAH funds were invested as at 31 December are as follows:

Asset	*2016* *BD'000*	*2015* *BD'000*
Cash and balances with banks and Central Bank	**31,361**	29,086
Gross financing assets	**374,770**	342,998
Gross Ijarah Muntahia Bittamleek and rental receivables	**126,217**	118,826
Collective impairment	**(3,885)**	(4,450)
Investment securities	**113,750**	92,076
Investment in real estate	**3,196**	13,621
Other assets	**8,907**	7,247
	654,316	599,404

The Bank temporarily allocates non-performing assets (past due greater than 90 days) from IAH to the equity shareholders and charges the specific impairment provisions to the owners' equity. Amounts recovered from these impaired assets is not subject to allocation between the IAH and owners' equity. The Bank takes remedial action on these non-performing assets and once these assets become performing, the assets and related income are allocated between the IAH and owners' equity.

The Bank charges IAH with their share of collective impairment provisions on financing facilities not past due and past due less than 90 days.

During the year, the Bank did not charge any administration expenses to investment accounts.

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

14.3 Profit distribution by account type

Following is the average percentage of profit allocation between the owner's accounts applied during the year for each type of IAH account and the percentage of funds invested in assets (utilization):

	2016			2015		
Account type	**Utilization**	**Mudhareb Share**	**Profit to IAH**	Utilization	Mudhareb Share	Profit to IAH
Tejoori	**90%**	**96.95%**	**2.69%**	90%	97.22%	2.42%
Savings	**90%**	**96.84%**	**2.80%**	90%	97.02%	2.59%
Vevo	**90%**	**97.12%**	**2.53%**	90%	97.21%	2.42%
Iqra	**100%**	**65.69%**	**32.02%**	100%	72.09%	26.43%
Time deposits	**100%**	**62.74%**	**35.03%**	100%	72.37%	26.16%

During the year, the Group did not increase its percentage of profits as mudarib. Further, the Group did not receive any incentive from profits of investment account holders.

The Group does not share profits with IAH resulting from investing current accounts and other funds received on the basis other than mudarba contract.

Funds from IAH are invested in assets on a priority basis.

14.4 Equity of Investment Accountholders Reserves

	2016	***Movement***	*2015*
	BD'000	***BD'000***	*BD'000*
Profit equalisation reserve	**1,245**	**250**	995
Investment risk reserve	**757**	**530**	227

14.5 Return on equity of investment accountholders

	2016	*2015*
	BD'000	*BD'000*
Gross return to equity of investment accountholders	**30,081**	30,685
Allocation to profit equalization reserve	**(250)**	(600)
Group's share as a Mudarib	**(22,170)**	(24,774)
Allocation to investment risk reserve	**(530)**	(124)
Net return on equity of investment accountholders	**7,131**	5,187

15 OWNERS' EQUITY

	2016 BD'000	2015 BD'000
(i) Share capital		
a) Authorised		
2,000,000,000 shares (2015: 2,000,000,000 shares) of BD 0.100 each	**200,000**	200,000
b) Issued and fully paid up		
1,013,389,130 shares (2015: 974,412,625 shares) of BD 0.100 each	**101,339**	97,441

(ii) Treasury Shares

	2016		2015
	Number of Shares	BD'000	BD'000
At 31 December	**3,065,167**	**563**	563

	2016 BD'000
Cost of treasury shares	**563**
Market value of treasury shares	**377**

The treasury shares as a percentage of total shares in issue is 0.37%.

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(iii) Reserves

Statutory reserve
A transfer has been made of BD 842 thousand (2015: 1,121 thousand) representing 10% of the profit for the year BD 8,420 thousand (2015: 11,205 thousand). The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of CBB.

General reserve
The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the net income for the year after appropriating statutory reserve.

Real estate fair value reserve
This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the income statement upon sale of the investment in real estate.

Investment fair value reserve
This represents the net unrealised gains or losses on equity investments relating to self financed investments.

15 OWNERS' EQUITY (continued)

(iv) Additional information on shareholding pattern

1) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

		2016		2015	
Names	*Nationality*	*Number of shares*	*% holding*	*Number of shares*	*% holding*
National Bank of Bahrain	Bahraini	294,482,159	29.06%	283,155,923	29.06%
Social Insurance Organisation	Bahraini	147,242,463	14.53%	141,579,292	14.53%
Social Insurance Organisation - Military Pension Fund	Bahraini	147,242,464	14.53%	141,579,293	14.53%
Islamic Development Bank	Saudi	146,117,221	14.42%	140,497,329	14.42%
General Council of Kuwaiti Awaqaf	Kuwaiti	72,729,830	7.18%	69,932,530	7.18%

2) The Group has only one class of shares and the holders of these shares have equal voting rights.

3) Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

	2016			2015		
	Number of shares	*Number of shareholders*	*% of total outstanding shares*	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	145,893,657	3,266	14.39%	140,197,699	3,376	14.39%
1% up to less than 5%	59,769,380	3	5.90%	57,470,559	3	5.90%
5% up to less than 10%	72,641,786	1	7.18%	69,932,530	1	7.18%
10% up to less than 50%	735,084,307	4	72.54%	706,811,837	4	72.53%
	1,013,389,130	3,274	100.00%	974,412,625	3,384	100.00%

Details of Directors' interests in the Group's shares as at the end of the year were:

Categories:

	2016		2015	
	No. of shares	*No. of directors*	*No. of shares*	*No. of directors*
Less than 1%	414,320	3	438,632	4

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above):

	2016		2015	
	No. of shares	*Percentage of Shareholding*	*No. of shares*	*Percentage of Shareholding*
Directors	414,320	0.041%	438,632	0.045%
Shari'a supervisory members	180,823	0.018%	169,158	0.017%
Senior management	418,496	0.041%	603,537	0.062%
	1,013,639	0.100%	1,211,327	0.124%

v) Proposed appropriations

The Board of Directors propose the appropriation for zakah of BD 137 thousand in 2016 (2015: BD nil) and cash dividend of 5% amounting to BD 5,051 thousand (2015: bonus shares as dividends amoutning to BD 3,898 thousand) which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

16 COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2016	*2015*
	BD'000	*BD'000*
Letters of credit and acceptances	**6,182**	2,918
Guarantees	**43,966**	40,971
Credit cards	**26,103**	45,883
Operating lease commitments *	**356**	1,238
	76,607	91,010

* The Group has entered into commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2016	*2015*
	BD'000	*BD'000*
Within one year	**3**	70
After one year but not more than five years	**353**	1,168
	356	1,238

17 CAPITAL ADEQUACY

The Group 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 Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue Sukuk etc. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital structure primarily consists of its paid-up capital, including share premium and reserves. From a regulatory perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities and future sources and uses of funds.

The Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which came into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasis common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements.

17 CAPITAL ADEQUACY (continued)

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2016 BD'000	2015 BD'000
CET 1 Capital before regulatory adjustments	111,111	102,571
Less: regulatory adjustments	-	-
CET 1 Capital after regulatory adjustments	111,111	102,571
T 2 Capital adjustments	11,961	14,426
Regulatory Capital	123,072	116,997

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. The capital requirements for these risks are as follows:

	2016 BD'000	2015 BD'000
Risk weighted exposure:		
Total Credit Risk Weighted Assets	527,820	587,023
Total Market Risk Weighted Assets	12,226	15,589
Total Operational Risk Weighted Assets	66,722	57,153
Total Regulatory Risk Weighted Assets	606,768	659,765
Investment risk reserve (30% only)	227	68
Equalization reserve (30% only)	374	299
Total Adjusted Risk Weighted Exposures	606,167	659,398
Capital Adequacy Ratio	20.30%	17.73%
Tier 1 Capital Adequacy Ratio	18.33%	15.55%
Minimum requirement	12.5%	12.5%

18 INCOME FROM FINANCING

	2016 BD'000	2015 BD'000
Income from Murabaha financing	20,143	19,889
Income from placements with financial institutions	341	139
Income from Musharaka financing	6,300	6,781
Income from Ijarah Muntahia Bittamleek	8,097	6,721
	34,881	33,530

19 INCOME FROM INVESTMENT SECURITIES

	2016 BD'000	2015 BD'000
Dividend income	739	739
	739	739

20 INCOME FROM INVESTMENT IN REAL ESTATE

	2016 BD'000	2015 BD'000
(Loss) / gain on sale	(843)	1,166
Rental income	362	367
Impairment charge	(82)	(339)
	(563)	1,194

21 OTHER INCOME

	2016 BD'000	2015 BD'000
Recoveries from previously written off financing	3,499	-
Foreign exchange (loss) / gain	(1,001)	1,222
Others	2,046	1,864
	4,544	3,086

22 OTHER EXPENSES

	2016 BD'000	2015 BD'000
Marketing and advertisement expenses	2,670	1,678
Information technology related expenses	1,312	1,016
Card Centre expenses	1,203	1,865
Premises and equipement expenses	1,233	1,259
Communication expenses	952	780
Professional services	933	620
Board remunerations	300	535
Board of directors sitting fees	178	125
Shari'a committee fees & remuneration	85	45
Others	1,954	1,872
	10,820	9,795

23 IMPAIRMENT PROVISIONS

23.1 Impairment provisions on financing

	Specific impairment		Collective impairment		Total	
	2016	*2015*	*2016*	*2015*	*2016*	*2015*
	BD'000	*BD'000*	*BD'000*	*BD'000*	*BD'000*	*BD'000*
At 1 January	**29,145**	31,578	**11,326**	10,818	**40,471**	42,396
Charge for the year	**3,924**	7,003	**1,225**	1,119	**5,149**	8,122
Recoveries and write backs	**(3,058)**	(2,919)	**-**	-	**(3,058)**	(2,919)
	866	4,084	**1,225**	1,119	**2,091**	5,203
Amounts written off against provision	**(2,474)**	(6,517)	**(117)**	(611)	**(2,591)**	(7,128)
At 31 December	**27,537**	29,145	**12,434**	11,326	**39,971**	40,471

The above impairment provision relates to the following:

	2016	*2015*
	BD'000	*BD'000*
Murabaha financing	**25,977**	24,287
Musharaka financing	**724**	2,994
Ijarah Muntahia Bittamleek	**13,270**	13,190
	39,971	40,471

23.2 Impairment provisions on investments

	2016	*2015*
	BD'000	*BD'000*
At 1 January	**14,998**	33,418
Charge for the year *	**7,641**	4,925
Recoveries and write backs	**-**	(1,175)
	7,641	3,750
Amounts written off against provision	**(1,907)**	(21,817)
Foreign currency translation changes	**(43)**	(353)
At 31 December	**20,689**	14,998

* Impairment charge includes BD 1,100 thousand (2015: BD 1,642 thousand) impairment charge on investment in associate.

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2016 amounts to BD 97,468 thousand (31 December 2015: BD 112,863 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

The Group has taken all the specific and investment provisions allocated to the non performing assets against its own capital. Hence the equity of investment accountholders was not charged for any specific and investment provision for impairment.

24 ZAKAH

The total Zakah payable as of 31 December 2016 amounted to BD 1,627 thousand (2015: BD 1,289 thousand) of which the Bank has BD 137 thousand Zakah payable (2015: BD nil) based on the statutory reserve, general reserve and retained earning as at 1 January 2016. The Zakah balance amounting to BD 1,490 thousand or 1.5 fils per share (2015: BD 1,289 thousand or 1.3 fils per share) is due and payable by the shareholders.

25 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit or loss for the year by the weighted average number of shares during the year as follows:

	2016	*2015*
Profit for the year in BD'000	**8,420**	11,205
Weighted average number of shares	**1,001,030**	838,384
Basic and diluted earnings per share (fils)	**8.41**	13.36

Basic and diluted earnings per share are the same since the Group has not issued any instruments that would have a dilutive effect.

26 RELATED PARTY TRANSACTIONS

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

The significant balances and transactions with related parties at 31 December were as follows:

	2016				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Assets					
Financing assets	-	-	1,615	-	1,615
Investment in associates	-	26,487	-	-	26,487
Other assets	-	-	-	402	402
Liabilities and Equity of investment accountholders					
Placements from financial institutions	-	-	-	-	-
Customers' current accounts	-	1,719	431	152	2,302
Other liabilities	-	1,568	360	-	1,928
Equity of investment accountholders	65,656	602	1,218	1,142	68,618

	2016				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Income					
Income from financing	-	-	86	-	86
Share of results of associates, net	-	(437)	-	-	(437)
Return on equity of investment accountholders	(658)	(5)	(15)	(35)	(713)
Expense on placements from financial institutions	(304)	-	-	-	(304)
Expenses					
Other expenses	-	-	(563)	(1,422)	(1,985)

26 RELATED PARTY TRANSACTIONS (continued)

	2015				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Financing assets	-	-	2,074	17	2,091
Investment in associates	-	25,397	-	-	25,397
Other assets	-	-	-	201	201
Liabilities and Equity of investment accountholders					
Placements from financial institutions	37,700	-	-	-	37,700
Customers' current accounts	-	968	520	247	1,735
Other liabilities	-	1,844	-	-	1,844
Equity of investment accountholders	41,567	275	1,255	917	44,014

	2015				
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Income					
Income from financing	-	4	151	1	156
Share of results of associates	-	(711)	-	-	(711)
Return on equity of investment accountholders	(472)	(1)	(1)	(27)	(501)
Expense on placements from financial institutions	(248)	-	-	-	(248)
Expenses					
Other expenses	-	-	(705)	(1,009)	(1,714)

Compensation of the key management personnel is as follows:

Key management personnel includes staff at the grade of assistant general manager or above.

	2016 BD'000	2015 BD'000
Short term employee benefits	1,226	849
Other long term benefits	196	160
	1,422	1,009

27 RISK MANAGEMENT

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. These risks and the processes to mitigate these risks have not significantly changed from the previous year.

The Group is exposed mainly to credit, liquidity, market and operational risks.

Risk management objectives

The risk management philosophy of the Group is to identify, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining it's risk exposure within self-imposed parameters.

The Group has defined its risk appetite within the parameters of its risk strategy. The Group reviews and realigns its risk appetite as per the evolving business plan of the Group with changing economic and market scenarios. The Group also assesses its tolerance for specific risk categories and its strategy to manage these risks.

Risk appetite of the Group is articulated in terms of the following dimensions:

1. Adequate capital level;
2. Stable profitability and growth;
3. Sufficient liquidity; and
4. Sound reputation.

Structure and Organization of the Risk Management Function

Risk Management Structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of the risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

a. Establishing overall policies and procedures; and
b. Delegating authority to the Executive Committee, Credit and Investment Committee, Chief Executive Officer and further delegation to the management to approve and review.

Executive Committee (EC) comprises of four designated members of the Board of Directors. The Executive Committee is delegated authority by the Board to manage the ongoing activities of the Group. Decisions are taken by the Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): As delegated by the Board of Directors and as per approved terms of reference, the Committee has been delegated with authorities and responsibilities including, approving extension or renewal of credit facilities, granting temporary excesses to customers with credit facilities approved by the Board, approving early repayments of facilities, monitoring the performance and quality of the Group's credit portfolio and overseeing the administration and effectiveness of and compliance with, the Group's credit policies through the review of such processes, reports and other information as it deems appropriate.

Risk Measurement and Reporting Systems

Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Risk Management Department (RMD) to the Credit Committee. The limits are reviewed and revised at least annually (or earlier if required).

27 RISK MANAGEMENT (continued)

a) Credit Risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, such as obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is to be compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

Notwithstanding the above, when facilities are extended to family owned limited liability entities, the following is normally obtained;

a. Collateral security, fully covering the exposure; or
b. Joint and several guarantees of shareholders directly involved in managing the entity as well as of shareholders owing at least 80% of the shares of the entity.

Third party guarantees in support of credit facilities are accepted only after review and approval of appropriate guarantor lines.

(i) Gross maximum exposure to credit risk

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The CIC periodically reviews and approves the value of securities. It has also approved a list of acceptable securities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure, without taking account of any collateral held or other credit enhancements.

	2016	*2015*
	BD'000	*BD'000*
Balances with banks and Central Bank	**50,379**	49,103
Placements with financial institutions	**63,805**	73,150
Financing assets	**526,637**	475,648
Ijarah Muntahia Bittamleek and Rental Recievables	**160,370**	133,753
Investment debt securities	**113,283**	95,867
	914,474	827,521
Letters of credit, guarantees and acceptances	**50,148**	43,889

27 RISK MANAGEMENT (continued)

a) Credit Risk (continued)

(ii) Risk concentrations of the maximum exposure to credit risk

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

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		*Liabilities and equity of investment accountholders*		*Commitments and contingent liabilities*	
	31 December 2016 BD'000	*31 December 2015 BD'000*	***31 December 2016 BD'000***	*31 December 2015 BD'000*	***31 December 2016 BD'000***	*31 December 2015 BD'000*
Geographical region						
Middle East	**1,030,644**	967,215	**924,205**	865,149	**50,504**	45,127
Rest of Asia	**-**	-	**849**	917	**-**	-
North America	**5,801**	5,241	**83**	68	**-**	-
Europe	**5,743**	3,892	**579**	702	**-**	-
	1,042,188	976,348	**925,716**	866,836	**50,504**	45,127
Industry sector						
Trading and manufacturing	**79,901**	60,541	**42,443**	26,318	**14,276**	13,267
Aviation	**-**	518	**1,977**	10,768	**820**	701
Real Estate	**197,234**	236,509	**22,266**	20,509	**2,298**	1,817
Banks and financial Institutions	**136,130**	126,933	**131,837**	109,900	**669**	646
Personal / Consumer	**381,084**	333,181	**441,795**	426,838	**427**	1,403
Government Organization	**132,860**	117,266	**143,222**	101,252	**-**	-
Others	**114,979**	101,400	**142,176**	171,251	**32,014**	27,293
	1,042,188	976,348	**925,716**	866,836	**50,504**	45,127

(iii) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal classification. The table below shows the credit quality by class of asset, based on the Group's credit rating system. Amounts reported are gross of any collective provision for impairment.

	31 December 2016					
	Balances with banks and Central Bank BD'000	***Placements with financial institutions BD'000***	***Financing assets BD'000***	***Ijarah Muntahia Bittamleek and rental receivables BD'000***	***Investment securities (Sukuk) BD'000***	***Total BD'000***
Past due and impaired	-	-	52,251	28,608	12,560	93,419
Specific impairment	-	-	(16,560)	(10,977)	(9,106)	(36,643)
Carrying value	-	-	35,691	17,631	3,454	56,776
Past due but not impaired:						
Less than 30 days	-	-	37,962	16,005	-	53,967
31 to 60 Days	-	-	12,041	1,345	-	13,386
61 to 90 days	-	-	9,460	432	-	9,892
Carrying value	-	-	59,463	17,782	-	77,245
Neither past due nor impaired	12,737	63,805	441,099	119,691	27,682	665,014
Carrying value	12,737	63,805	441,099	119,691	27,682	665,014
Sovereign	37,642	-	525	7,559	82,147	127,873
Carrying value	37,642	-	525	7,559	82,147	127,873
Collective impairment	-	-	(10,141)	(2,293)	-	(12,434)
	50,379	63,805	526,637	160,370	113,283	914,474

27 RISK MANAGEMENT (continued)

a) Credit Risk (continued)

(iii) Credit quality per class of financial assets (continued)

	31 December 2015					
	Balances with banks and Central Bank BD'000	*Placements with financial institutions BD'000*	*Financing assets BD'000*	*Ijarah Muntahia Bittamleek and rental receivables BD'000*	*Investment securities (Sukuk) BD'000*	*Total BD'000*
Past due and impaired	-	-	48,756	43,065	12,575	104,396
Specific impairment	-	-	(17,979)	(11,156)	(4,914)	(34,049)
Carrying value	-	-	30,777	31,909	7,661	70,346
Past due but not impaired:						
Less than 30 days	-	-	26,205	10,001	-	36,206
31 to 60 Days	-	-	6,666	1,602	-	8,268
61 to 90 days	-	-	3,536	393	-	3,929
Carrying value	-	-	36,407	11,996	-	48,403
Neither past due nor impaired	10,102	73,150	408,198	91,881	28,021	611,352
Carrying value	10,102	73,150	408,198	91,881	28,021	611,352
Sovereign	39,001	-	9,569	-	60,185	108,755
Carrying value	39,001	-	9,569	-	60,185	108,755
Collective impairment	-	-	(9,302)	(2,034)	-	(11,336)
	49,103	73,150	475,649	133,752	95,867	827,521

Restructured facilities during the year amounted to BD 20,580 thousand (2015: BD 3,789 thousand).

b) Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and quoted investments.

27 RISK MANAGEMENT (continued)

b) Liquidity Risk (continued)

Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period from the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2016 was as follows:

	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
ASSETS								
Cash and balances with the banks and Central Bank	29,442	-	-	-	-	-	33,766	63,208
Placements with financial institutions	63,805	-	-	-	-	-	-	63,805
Financing assets	23,480	15,488	23,248	49,452	82,910	332,059	-	526,637
Ijarah Muntahia Bittamleek and Rental Recievables	11,542	2,091	21	63	1,506	145,147	-	160,370
Investment securities	97	1,504	3,798	-	38,685	101,647	-	145,731
Investment in associates	-	-	-	-	-	-	26,487	26,487
Investment in real estate	-	-	-	-	-	-	28,066	28,066
Property and equipment	-	-	-	-	-	-	15,881	15,881
Other assets	379	1,665	-	-	3,044	-	6,915	12,003
Total assets	128,745	20,748	27,067	49,515	126,145	578,853	111,115	1,042,188
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	84,117	8,180	11,577	-	-	-	-	103,874
Customers' current accounts	152,647	-	-	-	-	-	-	152,647
Other liabilities	14,879	-	-	-	-	-	-	14,879
Equity of investment accountholders	433,806	77,119	84,079	50,014	5,003	-	4,296	654,317
Total liabilities and equity of investment accountholders	685,449	85,299	95,656	50,014	5,003	-	4,296	925,717
Liquidity gap	(556,704)	(64,551)	(68,589)	(499)	121,142	578,853	106,819	116,471
Cumulative liquidity gap	(556,704)	(621,255)	(689,844)	(690,343)	(569,201)	9,652	116,471	-

27 RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2015 was as follows:

	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
ASSETS	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Cash and balances with the banks and Central Bank	27,049	-	-	-	-	-	34,065	61,114
Placements with financial institutions	73,150	-	-	-	-	-	-	73,150
Financing assets	25,049	3,532	13,614	27,451	78,663	327,339	-	475,648
Ijarah Muntahia Bittamleek and Rental Recievables	6,059	96	6	41	11,580	115,971	-	133,753
Investments securities	5,143	16,472	7,793	500	22,524	78,203	-	130,635
Investment in associates	-	-	-	-	-	-	28,116	28,116
Investment in real estate	-	-	-	-	-	-	43,601	43,601
Property and equipment	-	-	-	-	-	-	16,640	16,640
Other assets	4,342	1,324	-	-	2,780	-	5,245	13,691
Total assets	140,792	21,424	21,413	27,992	115,547	521,513	127,667	976,348
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	63,288	30,228	-	-	-	-	-	93,516
Customers' current accounts	157,300	-	-	-	-	-	-	157,300
Other liabilities	16,616	-	-	-	-	-	-	16,616
Equity investment accountholders	362,827	116,463	72,053	38,919	5,652	-	3,490	599,404
Total liabilities and equity of investment accountholders	600,030	146,691	72,053	38,919	5,652	-	3,490	866,836
Liquidity gap	(459,238)	(125,267)	(50,640)	(10,927)	109,895	521,513	124,177	109,513
Cumulative liquidity gap	(459,238)	(584,505)	(635,145)	(646,072)	(536,177)	(14,664)	109,513	-

27 RISK MANAGEMENT (continued)

c) Market Risk

The Group has accepted the definition of market risk as defined by CBB as "the risk of losses in on- and off-balancesheet positions arising from movements in market prices.

(i) Profit rate risk

Profit rate risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities, and equity of investment accountholders as the repricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

(ii) Equity price risk

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

In order to measure the risk of equity on its financial positions, the Group adopts a sensitivity analysis on its quoted equity portfolio for a 10% increase of the portfolio value with all other variables remaining constant. The effect of a similar decrease in equity prices is expected to be equal and opposite to the effect of the increase shown.

Equity price risk variation as of 31 December is as follows:

2016	*Increase in equity price*	*Sensitivity of profit or loss*	*Sensitivity of equity*
	%	*BD'000*	*BD'000*
Kuwait Stock Exchange	+10	69	-

2015	*Increase in equity price*	*Sensitivity of profit or loss*	*Sensitivity of equity*
	%	*BD'000*	*BD'000*
Kuwait Stock Exchange	+10	102	-

As at the consolidated statement of financial position date, the Group has unquoted (equities and sukuk) of BD 133 million (31 December 2015: BD 115 million). The impact of changes in the value of these unquoted equities and sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

27 RISK MANAGEMENT (continued)

c) Market Risk (continued)

iii) Foreign exchange risk

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	Equivalent Long (short) 2016 BD '000	*Equivalent Long (short) 2015 BD '000*
Currency		
Pound Sterling	**(1,016)**	4
Euro	**(1,051)**	(10,131)
CAD	**(3)**	(4,295)
JPY	**(3)**	(1,122)
Kuwaiti Dinars	**(10,131)**	-

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant foreign exchange risk.

Moreover, as the Group does not have significant exposure to other currencies, movement of the currency exchange rates against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated income statement and owners' equity.

iv) Commodity risk

Commodity risk is defined as inhernt risk in financial product arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within particular sector and less correlated across sectors.

d) Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. 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, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

28 SEGMENTAL INFORMATION

For management purposes, the Group is organised into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling investments in local and international markets and investment in properties.

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

Segment information is disclosed as follows:

	31 December 2016			
	Corporate BD'000	***Retail BD'000***	***Investment BD'000***	***Total BD'000***
Total net income	**12,928**	**27,868**	**876**	**41,672**
Total expenses	**(3,791)**	**(17,140)**	**(2,589)**	**(23,520)**
Provision for impairment	**251**	**(2,342)**	**(7,641)**	**(9,732)**
Profit / (loss) for the year	**9,388**	**8,386**	**(9,354)**	**8,420**
Other information				
Segment assets	**277,177**	**452,746**	**312,265**	**1,042,188**
Segment liabilities, and equity	**304,460**	**512,642**	**225,086**	**1,042,188**

	31 December 2015			
	Corporate BD'000	*Retail BD'000*	*Investment BD'000*	*Total BD'000*
Total income	10,906	25,909	4,904	41,719
Total expenses	(2,744)	(14,217)	(4,600)	(21,561)
Provision for impairment	(4,417)	(786)	(3,750)	(8,953)
Profit / (loss) for the year	3,745	10,906	(3,446)	11,205
Other information				
Segment assets	239,128	416,251	320,969	976,348
Segment liabilities, and equity	277,850	490,128	208,370	976,348

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

29 FINANCIAL INSTRUMENTS

Fair value hierarchy

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

Fair values of quoted securities / Sukuk are derived from quoted market prices in active markets, if available. In case of financing assets the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets. Other than equity investments and managed funds carried at cost of BD 31,760 thousand (2015: BD 33,749 thousand), the estimated fair values of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

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 at 31 December:

2016	***Level 1 BD'000***	***Level 2 BD'000***	***Level 3 BD'000***	***Total BD'000***
Investments carried at fair value through equity				
Quoted equity securities	**688**	**-**	**-**	**688**

2015	*Level 1 BD'000*	*Level 2 BD'000*	*Level 3 BD'000*	*Total BD'000*
Investments carried at fair value through equity				
Quoted equity securities	645	-	-	645

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3.

30 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various charatable purposes. The movements in these funds is shown in statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

31 SHARI'A SUPERVISORY BOARD

The Group's 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.

32 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

33 COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported profit for the year or total owners' equity.