# IBDAR BANK B.S.C. (c)

# CONSOLIDATED FINANCIAL STATEMENTS

**31 December 2016**

**CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2016**

**CONTENTS** Page


| | |
|---|---|
| Chairman's report | i |
| Shari'a Supervisory Board report | ii |
| Independent auditors' report to the shareholders | 1 |
| **Consolidated financial statements** | |
| Consolidated statement of financial position | 2 |
| Consolidated income statement | 3 |
| Consolidated statement of changes in owners' equity | 4 |
| Consolidated statement of cash flows | 5 |
| Notes to the consolidated financial statements | 6 - 45 |

## Chairman's Statement

The Directors of Ibdar Bank B.S.C (closed) ("the Bank") have the pleasure in submitting their report to the shareholders accompanied by the consolidated financial statements for the year ended 31 December 2016.

The global economy witnessed continued stagnation in 2016. Sluggish growth in advanced economies, due to low commodity prices, weak global trade, and lack of liquidity, continued to infect the world economy. In Bahrain and the region, fluctuating oil prices remained a debilitating force. However, despite these challenges, Bahrain's economy remained resilient. This is in part due to fiscal consolidation efforts and the activation of a large infrastructure pipeline, resulting in reasonable growth in the non-oil sector.

Against this less than ideal backdrop, the Bank reported total revenues USD 19.3 million for the year, (2015: USD 23.7 million). This decrease is attributable to decreased activities in our focus markets in the first half of the year. In particular, activities in the UK, as a result of the economic repercussions of Brexit, were impacted. The Bank incurred a net loss of USD47.7 million in 2016 primarily as a result of right pricing the legacy assets of the Bank. Operating income amounted to USD6.9 million (2015 USD9.5 million), while the total asset base of the Bank decreased by 20.8% to USD388 million.

Although the 2016 balance sheet reflects a loss for the year, the Bank is on track to becoming an established market participant. The second half of the year saw a renewed focus placed on the development and growth of a well-diversified investment platform, and the Bank achieved a number of milestones in this regard. The investment engine gathered momentum, with enhanced activity in the real estate business, in addition to healthy exits from aviation assets as the Bank worked on building a strong track record. Among our key investments in 2016 were those in income generating aviation transactions, including the successful introduction of Islamic financing into the African aviation market. On the real estate front, the Bank completed its first successful foray into the USA with the acquisition of a USD78 million Multi Family Housing property in Montgomery County Maryland, USA and the closing of a USD 29.5 million Joint Venture (JV) to develop a prime Purpose-built Student Accommodation (PBSA) project in Southampton, United Kingdom.

Throughout the reporting period, the Bank maintained a steadfast focus on delivering value for shareholders and stakeholders and as a result USD 44 million was deployed in acquiring new assets during the year. The Bank also worked to exit non income generating assets and will continue to do this on an opportunistic basis.

On April 28th, a new and diverse Board of Directors was elected for a 3 year term to guide the Bank as it builds a strong foundation on the tenements of revenue diversification sustainable income streams and prudent cost management.

Going forward, the Bank will maintain a steadfast focus on building the business, and delivering value added opportunities to our GCC wide client base. While our core MENA markets continue to provide us with strong and consistent opportunities, our geographical reach and product lines will expand across global markets where we have a strong pipeline of opportunities under evaluation.

Although many of the challenges that have plagued the regional economy in 2016 will continue in the coming year, the Board is confident that, with a clear strategy, strong liquidity, and a professional team, the Bank is well positioned to navigate these obstacles. As we strive towards positioning the Bank as a leading Shari'ah compliant financial institution in the GCC, we remain guided by a moral compass of ethical business practices, and unswerving in our dedication to the elevation of the Islamic Financial Services Industry, both locally and globally.

On behalf of the directors, I take this opportunity to express our sincere appreciation to the leadership led by HM King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince, Deputy Supreme Commander and First Deputy Premier Prince Salman bin Hamad Al Khalifa, the Ministry of Finance, the Ministry of Industry and Commerce, the Central Bank of Bahrain, investors, shareholders and employees of the Bank for their support, and we look forward to their continued backing in the fiscal year 2017.

Mr. Tareq Sadeq

بسم الله الرحمن الرحيم

24 Jumada Al-Awwal 1438
21 February 2017

Thanks to Allah Almighty, and Prayers and Peace be upon His Messenger, our Prophet Mohammed and all his Relatives and Companions until the judgment day,

After completing the financial on 31/12/2016, we report the following:

We have studied the products introduced by the Bank and verify the extent of the Bank's commitment to the provisions and principles of Islamic Sharia laws, and with the specific fatwas, rulings and guidelines issued by us.
Since the Executive Management takes the responsibility to ensure that the Bank's commitment to act in accordance with the rules and principles of Sharia law, our responsibility is limited to declaring and stating the Sharia opinion on the banking and investment transactions that were presented to the Sharia Supervisory Board.

Ibdar Bank's operations have been discussed and reviewed by the Sharia Supervisory Board and it's executive member, through seven meetings during the year, beside the daily engagements of the internal Sharia Supervision and Advisory Department, where a full, thorough review for more than 157 new documents, agreements, guidelines and policies that were introduced from the management or transferred from the Board of Directors to the Sharia Supervisory Board.
The scope of our review covered the investment projects, such as, investments in Aviation, Private Equities, Real Estate investments, Shipping, Sukuks & Money Market, Investment accounts and Funds.

The Sharia Supervisory Board also responds to the inquiries by the concerned departments in the Bank directly, or through its executive member, as well as declaring opinions and providing advice, when requested to do so, on new contracts and financial transactions structures.

مصرف إبدار
Ibdar Bank

**In our opinion:**

1. The Bank's contracts and transactions we have reviewed during the year ended 31December 2016 are in compliance with the Islamic Sharia rules and principles, saved a few transactions which have been rectified at a later stage.
2. The allocation of profit and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Sharia rules and principles;
3. Paying Zakat is the responsibility of the Shareholders, The basis of Zakat calculation and estimation is in compliance with Islamic rules and with accordance to AAOIFI Sharia Standard. The exact amount of Zakat per share shall be announced to the Shareholders on a separate report.
4. Any observations we came across where settled by the management as directed by the SSB.
5. Impure earnings were identified during the year 2016, and these were fully disbursed for charity.

We pray to Allah almighty to grant the Bank all success and further compliance with the principles of Islamic Sharia.

Prayer and peace be upon our prophet Mohammed peace be upon him, all His Relatives and Companions.

| Dr.Abdulsttar Abu Ghudda | Shaikh /Adnan Al-Qattan | Shaikh/ Nizam Yacoby |
|---|---|---|
| SSB Chairman | SSB Member | SSB Executive Member |

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

Ibdar Bank B.S.C. (c)
Manama, Kingdom of Bahrain

**Report on the consolidated financial statements**
We have audited the accompanying consolidated financial statements of Ibdar Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of income, changes in owners' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

*Opinion*
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated results of operations, its consolidated cash flows and its consolidated changes in owners' equity for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the Chairman's report 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 and applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration no. 137
27 February 2017

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**as at 31 December 2016** US$ 000's

| | note | 31 December 2016 | 31 December 2015 (Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with banks | | 5,151 | 13,219 |
| Placements with financial institutions | | 7,902 | 2,002 |
| Financing receivables | 5 | 6,915 | 14,973 |
| Receivable from Ijarah investors | 6 | 15,185 | 15,662 |
| Investment securities | 7 | 158,561 | 207,105 |
| Assets acquired for leasing | 8 | 68,602 | 185,031 |
| Investment in real estate | 9 | 107,264 | 30,034 |
| Equity-accounted investees | 10 | 4,742 | 12,500 |
| Other assets | 11 | 13,603 | 9,029 |
| **Total assets** | | **387,925** | **489,555** |
| **LIABILITIES** | | | |
| Placements from financial institutions | | 6,503 | 4,163 |
| Financing liabilities | 12 | 73,273 | 26,221 |
| Liabilities related to assets acquired for leasing | 13 | 52,181 | 143,828 |
| Other liabilities | 14 | 13,963 | 11,763 |
| **Total liabilities** | | **145,920** | **185,975** |
| **OWNERS' EQUITY** | | | |
| Share capital | 15 | 300,000 | 300,000 |
| Statutory reserve | | 676 | 676 |
| Accumulated losses | | (66,634) | (17,249) |
| Investments fair value reserve | | - | (107) |
| Property fair value reserve | | 610 | 1,826 |
| General reserve | | 4,618 | 4,618 |
| **Equity attributable to shareholders of Bank** | | **239,270** | **289,764** |
| Non-controlling interests | | 2,735 | 13,816 |
| **Total owners' equity** | | **242,005** | **303,580** |
| **Total liabilities and owner's equity** | | **387,925** | **489,555** |

The consolidated financial statements consisting of pages 2 to 45 were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

Tareq Sadeq
*Chairman*

Abdulkarim Bucheery
*Vice chairman*

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

## CONSOLIDATED INCOME STATEMENT
**for the year ended 31 December 2016** US$ 000's

| | note | 2016 | 2015 (Restated) |
|---|---|---|---|
| **INCOME** | | | |
| Income from investment banking services | | - | 1,954 |
| Income from investment securities | 16 | 5,841 | 8,097 |
| Income from assets acquired for leasing, net | 8 | 7,178 | 5,609 |
| Gain on sale of assets acquired for leasing | | 1,274 | - |
| Fee income | | 494 | - |
| Finance income | | 1,137 | 859 |
| Share of profit of equity-accounted investees | 10 | 192 | 2,261 |
| Gain on sale of development properties | | - | 411 |
| Gain on sale of investment in real estate | | - | 2,380 |
| Other income | 17 | 3,223 | 2,137 |
| **Total income** | | **19,339** | **23,708** |
| **EXPENSES** | | | |
| Staff cost | 18 | 6,420 | 6,952 |
| Finance expense on placements and financing liabilities | | 1,204 | 797 |
| Foreign exchange (gains) / losses | | (2) | 479 |
| Depreciation and amortization | | 150 | 177 |
| Other operating expenses | 19 | 4,679 | 5,852 |
| **Total expenses** | | **12,451** | **14,257** |
| **Profit before fair value changes and impairment allowances** | | **6,888** | **9,451** |
| Fair value loss on investment securities, net | 7 | (2,322) | (9,085) |
| Impairment allowances | 20 | (52,297) | (14,701) |
| **LOSS FOR THE YEAR** | | **(47,731)** | **(14,335)** |

| | 2016 | 2015 |
|---|---|---|
| Attributable to: | | |
| Shareholders of Bank | (49,385) | (16,218) |
| Non-controlling interests | 1,654 | 1,883 |
| | **(47,731)** | (14,335) |

The consolidated financial statements consisting of pages 2 to 45 were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

Tareq Sadeq
*Chairman*

Abdulkareem Bucheery
*Vice chairman*

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2016

US$ 000's

| | Equity attributable to shareholders of Bank | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | **Share capital** | **Share premium** | **Statutory reserve** | **Accumulated losses** | **Investment fair value reserve** | **Property fair value reserve** | **General reserve** | **Total** | **Non-controlling interests** | **Total owners' equity** |
| Balance at 1 January 2016 | 300,000 | - | 676 | (17,249) | (107) | 1,826 | 4,618 | 289,764 | 13,816 | 303,580 |
| (Loss) / profit for the year | - | - | - | (49,385) | - | - | - | (49,385) | 1,654 | (47,731) |
| Net changes in fair value | - | - | - | - | 107 | (1,216) | - | (1,109) | - | (1,109) |
| **Total recognised income and expense for the year** | - | - | - | (49,385) | 107 | (1,216) | - | (50,494) | 1,654 | (48,840) |
| Derecognition on disposal of assets acquired-for-leasing, net (note 7) | - | - | - | - | - | - | - | - | (12,735) | (12,735) |
| **Balance at 31 December 2016** | 300,000 | - | 676 | (66,634) | - | 610 | 4,618 | 239,270 | 2,735 | 242,005 |

| | Equity attributable to shareholders of Bank | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2015 (Restated) | Share capital | Share premium | Statutory reserve | Accumulated losses | Investment fair value reserve | Property fair value reserve | General reserve | Total | Non-controlling interests | Total owners' equity |
| Balance as at 1 January 2015 | 300,000 | 16,385 | 676 | (17,416) | (494) | 3,518 | 4,618 | 307,287 | 9,248 | 316,535 |
| (Loss) / profit for the year | - | - | - | (16,218) | - | - | - | (16,218) | 1,883 | (14,335) |
| Share of reserve from equity-accounted investees | - | - | - | - | - | (181) | - | (181) | - | (181) |
| Transfer to income statement on disposal | - | - | - | - | - | (1,439) | - | (1,439) | - | (1,439) |
| Net changes in fair value | - | - | - | - | 387 | (72) | - | 315 | - | 315 |
| Total recognised income and expense for the year | - | - | - | (16,218) | 387 | (1,692) | - | (17,523) | 1,883 | (15,640) |
| Adjustment of losses | - | (16,385) | - | 16,385 | - | - | - | - | - | - |
| Distribution to non-controlling interests | - | - | - | - | - | - | - | - | 2,685 | 2,685 |
| Balance at 31 December 2015 | 300,000 | - | 676 | (17,249) | (107) | 1,826 | 4,618 | 289,764 | 13,816 | 303,580 |

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016 US$ 000's

| | 2016 | 2015 (Restated) |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss for the year | (47,731) | (14,335) |
| Adjustments for: | | |
| Depreciation and amortization | 150 | 177 |
| Fair value loss on investment securities | 2,322 | 9,085 |
| Gain on sale of investment securities | (1,909) | (4,481) |
| Other income | (2,068) | - |
| Gain on sale of investment in real estate | - | (2,380) |
| Impairment allowances | 52,297 | 14,701 |
| Share of profit of equity accounted investees | (192) | (2,261) |
| Net amortisation of premium / (discount) on sukuk | 99 | 197 |
| | 2,968 | 703 |
| **Changes in operating assets and liabilities:** | | |
| Financing receivables | 541 | 10,375 |
| Receivables from Ijara investors | - | (3,174) |
| Other assets | (5,299) | (2,887) |
| Other liabilities | 3,444 | 1,068 |
| **Net cash generated from operating activities** | 1,654 | 6,085 |
| **INVESTING ACTIVITIES** | | |
| Purchase of investment securities | (138,360) | (89,331) |
| Proceeds from sale of investment securities | 144,775 | 71,397 |
| Purchase of investment in real estate | (77,356) | 13,581 |
| Proceeds from sale of development properties | - | 834 |
| Payments for assets acquired-for-leasing | (7,289) | (25,048) |
| Proceeds from sale of assets acquired-for-leasing | 32,072 | - |
| Payments for purchase of equipment | (138) | (151) |
| Proceeds from equity accounted investees, net | 5,819 | - |
| **Net cash used in investing activities** | (40,477) | (28,718) |
| **FINANCING ACTIVITIES** | | |
| Distribution to non-controlling interests | - | (784) |
| Non-controlling interests related to assets acquired for leasing | (12,736) | 3,470 |
| Placement from financial institutions, net | 2,340 | (8,037) |
| Financing from financial institutions | 47,051 | 17,213 |
| **Net cash generated from financing activities** | 36,655 | 11,862 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (2,168) | (10,771) |
| Cash and cash equivalents at 1 January | 15,221 | 25,992 |
| **CASH AND CASH EQUIVALENTS AT 31 December** | 13,053 | 15,221 |
| **CASH AND CASH EQUIVALENTS comprise:** | | |
| Cash and bank balances | 5,151 | 13,219 |
| Placements with financial institutions (with original maturity of 90 days or less) | 7,902 | 2,002 |
| | 13,053 | 15,221 |

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

for the year ended 31 December 2016 US$ 000's

## 1 INCORPORATION AND ACTIVITIES

Ibdar Bank B.S.C.(c) (the "Bank"), is a closed joint stock company incorporated in the Kingdom of Bahrain on 12 June 2007 under commercial registration (CR) number 65549. The Bank operates as an Islamic Wholesale Investment Bank under a license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is Zamil Tower, 6th Floor, Al Khalifa Avenue, Block 305, Manama, Kingdom of Bahrain.

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

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

*Consolidated financial statements*
The consolidated financial statements comprise the results of the Bank and its subsidiaries.

The following are the principal subsidiaries of the Bank that are consolidated:

| Subsidiary | Beneficial ownership interests | | Year of incorporation / acquisition | Country of incorporation | Principal activity |
|---|---|---|---|---|---|
| | 2016 | 2015 | | | |
| Elaf Corporate Services Limited | 100% | 100% | 2008 | British Virgin Island | Manage affiliated companies |
| Tamkeen Investment Company B.S.C. (c) | 100% | 100% | 2008 | Bahrain | Administer Management Incentive Program ("MIP"). |
| Suffun Bahrain W.L.L. | 100% | 100% | 2010 | Bahrain | Investment Holding Company |
| Medical Management Group SPC | 100% | 100% | 2005 | Bahrain | SPV to invest in health care |
| Q400 Aviation Company Limited* | - | 41.01% | 2013 | British Virgin Islands | Purchase and lease of aircraft to airline company |
| Q400-II Aviation Company Limited* | - | 90.55% | 2015 | British Virgin Islands | Purchase and lease of aircraft to airline company |
| Q400-III Aviation Company Limited | 100% | 100% | | | |
| Q400-IV Aviation Company Limited | 100% | 100% | 2015 | British Virgin Islands | Purchase and lease of aircraft to airline company |
| Q400-V Aviation Company Limited | 100% | 100% | | | |
| Cumberland Palace Proj Co | 100% | - | 2016 | British Virgin Islands | Investment holding vehicle for real estate development |
| PKV Investment Company Limited | 90% | - | 2016 | Cayman Islands | Investment holding vehicle for property lease |

* Sold during 2016

## 2 BASIS OF PREPARATION

**a) Statement of compliance**

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

**b) Basis of measurement**

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

**c) Basis of consolidation**

**i) Subsidiaries**

Subsidiaries are those enterprises (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 and de-consolidated from the date that control ceases.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and the SPE, the Group performs a reassessment of control over the SPE. The Group in its fiduciary capacity also manages and administers assets held in trust and other investment vehicles on behalf of investors.

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 30.

*Loss of control*

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

*Non-controlling interests*

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

2 *BASIS OF PREPARATION (continued)*

c *Basis of consolidation (continued)*

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

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

**ii) Investment in associates (Equity-accounted investees)**

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

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

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

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

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

**iii) Transactions eliminated on consolidation and equity accounting**

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

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

2 *BASIS OF PREPARATION (continued)*

**d) Business combination**

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

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

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

**e) Restatement**

In 2015, the Group classified its investments an associate and four Q400 Bombardier aircraft acquired in June 2015 through special purpose vehicles (subsidiaries) as held-for-sale. As at 31 December 2016, on reassessment of classification of these assets, the investment and aircraft along with related liabilities were classified as held-for-use. The investment is now accounted as investment carried at fair value through income statement (FVTIS).

In accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations, upon reclassification to held-for-use, the four Q400 Bombardier aircraft's assets and liabilities were consolidated on a line-by-line basis including earlier periods resulting in restatement of the prior years as if the assets and liabilities had always been consolidated on line-by-line basis and charging of depreciation of aircraft from the date these were originally classified as held-for-use including prior periods.

for the year ended 31 December 2016 US$ 000's

2 *BASIS OF PREPARATION (continued)*

*e) Restatement (continued)*

The impact of restatement is given below:

| **Consolidated statement of financial position (31 December 2015)** | **As previously reported** | **Impact of restatement** | **As restated** |
|---|---|---|---|
| **ASSETS** | | | |
| Assets held-for-sale | 112,170 | (112,170) | - |
| Investment securities | 195,455 | 11,650 | 207,105 |
| Assets acquired for leasing | 88,194 | 96,837 | 185,031 |
| Other assets | 5,717 | 3,312 | 9,029 |
| **Total assets** | **489,926** | **(371)** | **489,555** |
| **LIABILITIES** | | | |
| Liabilities related to assets held-for-sale | 73,050 | (73,050) | - |
| Liabilities related to assets acquired for leasing | 70,752 | 73,076 | 143,828 |
| **Total liabilities** | **185,949** | **26** | **185,975** |
| **OWNERS' EQUITY** | | | |
| Accumulated losses | (15,488) | (1,761) | (17,249) |
| Non-controlling interests | 12,357 | 1,459 | 13,816 |
| Non-controlling interests related to assets held-for-sale | 95 | (95) | - |
| **Total owners' equity** | **303,977** | **(397)** | **303,580** |

| **Consolidated income statement (for the year ended 31 December 2015)** | **As previously reported** | **Impact of restatement** | **As restated** |
|---|---|---|---|
| **INCOME** | | | |
| Income from assets acquired for leasing, net | 3,529 | 2,080 | 5,609 |
| Income from assets held-for-sale | 3,932 | (3,932) | - |
| **Total income** | **25,560** | **(1,852)** | **23,708** |
| **LOSS FOR THE YEAR** | **(12,483)** | **(1,852)** | **(14,335)** |
| Attributable to: | | | |
| Shareholders of Bank | (14,457) | (1,761) | (16,218) |
| Non-controlling interests | 1,879 | 4 | 1,883 |
| Non-controlling interests related to assets held-for-sale | 95 | (95) | - |

## 3 SIGNIFICANT ACCOUNTING POLICIES

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

*New standards, amendments and interpretations issued effective from 1 January 2016*

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that would be expected to have a material impact on the Group.

**a) Foreign currency transactions**

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

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

*Other group companies*

The other Group companies functional currencies are either denominated in US dollars or currencies which are effectively pegged to the US dollars, and hence, the translation of financial statements of the group companies that have a functional currency different from the presentation currency do not result in exchange differences.

**b) Investment securities**

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

***(i) Classification***

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

***Debt-type instruments***

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

*At fair value through income statement (FVTIS)*

These investments are either not managed on contractual yield basis or designated on initial recognition at FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognised the gains or losses on them on different bases.

*At amortised cost*

This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis.

*3 SIGNIFICANT ACCOUNTING POLICIES (continued)*

*b) Investment securities (continued)*

*(i) Classification (continued)*

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

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

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking.

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

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

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

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

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

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

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

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

*3 SIGNIFICANT ACCOUNTING POLICIES (continued)*

*b) Investment securities (continued)*

***(iv) Measurement principles***

*Amortised cost measurement*

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

*Fair value measurement*

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

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

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

**c) Placements with financial institutions**

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

**d) Financing receivables**

Financing receivables comprise Shari'a compliant contracts with fixed or determinable payments and are stated at amortised cost less provision for impairment, if any. Specific provisions are created for impairment where losses are expected to arise on non-performing receivables. The receivables are written off when they are considered to be uncollectible to reduce all impaired financing receivables to their expected recognised values.

**e) Musharaka financing**

Musharaka is stated at the fair value of consideration given less any impairment. Musharaka 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 assets results in difference between fair value and book value, such difference is recognised as profit or loss to the Group.

**f) Investment in real estate**

Investment in real estate comprise land and building held to earn rental income and/or are expected to benefit from capital appreciation and land held for undetermined future use. Investment in real estate are measured initially at cost, including directly attributable expenditure. Subsequently, investment properties are carried at fair value.

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

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

f) *Investment in real estate (continued)*

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

**g) Assets acquired for leasing**

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

**h) Assets held-for-sale and discontinued operations**

*Classification*

The Group classifies non-current assets or disposal groups as held-for-sale if its carrying amount is expected to be recovered within twelve months principally through a sale transaction rather than through continuing use. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

If the criteria for classification as held-for-sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held-for-sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, recognised or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.
Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and investment property carried at fair value, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated income statement. Gains are not recognised in excess of any cumulative impairment loss.

*Measurement*

Non-current assets or disposal groups (other than financial instruments) classified as held-for-sale, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' continue to be measured in accordance with their stated accounting policies. On classification of equity-accounted investee as held-for-sale, equity accounting is ceased at the time of such classification as held-for-sale. Non-financial assets (i.e. intangible assets, equipment) are no longer amortised or depreciated.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

h) *Assets held for sale and discontinued operations (continued)*

*Discontinued operations*
A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:
- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

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

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

*Investments carried at fair value through equity (FVTE)*
In the case of equity type instruments carried at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. If any such evidence exists for equity type instruments, the recognised re-measurement loss shall be transferred from equity to the consolidated income statement. Impairment losses recognised in consolidated income statement for an equity investment are reversed directly through equity.

For equity type instruments carried at cost 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 expected recoverable amount is assessed to be below the carrying amount of the investment. All impairment losses are recognised through the consolidated income statement and is not reversed.

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

*3 SIGNIFICANT ACCOUNTING POLICIES (continued)*

*i) Impairment of assets (continued)*

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

**j) Financing liabilities**

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

**k) Placements from financial institutions.**

These comprise funds from financial institutions received on Shari'ah compliant contracts. Due to financial institutions are stated at their amortised cost.

**l) Share capital and reserves**

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

*Statutory reserve*

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

**m) Cash and cash equivalents**

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and placements with financial institutions with original maturities of 90 days or less from the acquisition date that are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

**n) Revenue recognition**

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

**Income from investment banking services** is recognised when the services for the transaction are provided and income is earned. This is usually when the Group has performed all significant acts in relation to the transaction and it is highly probable that the economic benefits from the transaction will flow to the Group.

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

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

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

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

n) *Revenue recognition (continued)*

**Fair value gain / (loss) on investment securities (recognised gain or loss)** is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 2 (f)).

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

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

**Gain on sale of development properties** is recognised as the difference between the carrying value of the development properties and the considered received or receivable.

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

o) **Earnings prohibited by Shari'a**

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

p) **Zakah**

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

q) **Employees benefits**

(i) *Short-term benefits*

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

(ii) *Post employment benefits*

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

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

r) **Dividends and other appropriations**

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

*3 SIGNIFICANT ACCOUNTING POLICIES (continued)*

**s) Provisions**

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

**t) Contingent liabilities and contingent assets**

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

**u) Leases**

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

**v) Onerous contracts**

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

**w) 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.

**x) Offsetting of financial instruments**

Financial instruments comprise of financial assets and financial liabilities. Financial assets include cash and balances with banks, placements with financial institutions, financing receivables, investment securities and other assets. Financial liabilities include due to financial institutions, due to customers, other liabilities and financial guarantees.

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

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

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

**Judgement**

*Classification of investments*

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

*4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)*

*Judgement (continued)*

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

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

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

*Impairment on investments carried at fair value carried through equity*
Equity-type instruments classified as investments at FVTE but carried at cost less impairment due to the absence of reliable measure of fair value are tested for impairment. A significant portion of the Group's equity-type investments comprise investments in private equity and long-term real estate and infrastructure development projects. In making an assessment of impairment, the Group evaluates among other factors, liquidity of the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

*Useful lives and residual values of assets acquired for leasing*
Depreciation on assets acquired for leasing is calculated based on estimates of useful life of 25 years and estimated residual value at the end of useful life. An increase (decrease) in the estimate of useful life by 10% would lead to a decrease (increase) in the depreciation for the year by US$ 254 thousand (US$ 310 thousand) and an increase (decrease) in the estimated residual value at the end of its useful life would result in an decrease (increase) in the depreciation for the year by US$ 12 thousands (US$ 12 thousands).

for the year ended 31 December 2016 US$ 000's

*4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)*

*Estimations (continued)*

*Fair value of investment in real estate*
The fair value of investment in real estate is determined by independent real estate valuation experts having recent experience in the locations and segments of the investment in real estate that is being valued. The determination of the fair value of such assets requires the use of judgment based on estimates by independent valuation experts that are based on local market conditions existing at the reporting date. For all investment in real estate, their current use equates to the highest and best use. Buildings were valued based on capitalization of future rental cash flows, estimated vacancy rates and capitalization rates. The fair value of land was determined based on sales comparison approach taking into consideration comparable properties in close proximity. There is no change in the valuation methodology during the year.

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

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

## 5 FINANCING RECEIVABLES

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Gross murabaha receivables | 9,381 | 17,634 |
| Less: Deferred profit | (2,635) | (2,823) |
| Net murabaha receivables | 6,746 | 14,811 |
| Musharaka financing | 169 | 162 |
| | 6,915 | 14,973 |

Financing receivable is net of impairment allowance of US$ 8,610 thousand (31 December 2015: US$ 616 thousand) (refer note 26). The financing receivables are subject to a profit rate of 2.75 % with maturity period 2 years and 4 months.

## 6 RECEIVABLE FROM IJARAH INVESTORS

Receivable from ijarah investors represent the investors' share of borrowings that was sourced by the bank (refer note 12) for participation in the Group's real estate ijarah series products which will be settled in accordance with the respective product structures.

In accordance with the initial agreement, the receivables will be settled through the sale of the underlying properties. As at 31 December 2016, the fair value of the properties was US$ 26 million (2015: US$ 32.2 million) determined based on valuation by independent valuers and the related borrowings amounted to US$ 15.6 million (31 December 2015: US$ 16.2 million) (refer note 12).

for the year ended 31 December 2016 US$ 000's

## 7 INVESTMENT SECURITIES

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Debt type Instruments** | | |
| *At amortized cost* | | |
| - *Quoted sukuk* | 47,896 | 69,780 |
| *At fair value through income statement* | | |
| - *Quoted sukuk – held for trading* | 11,269 | - |
| **Equity type instruments** | | |
| *At fair value through income statement* | | |
| - *Unquoted equity securities* | 10,150 | 12,627 |
| - *Quoted sukuk- non-trading* | 8,741 | 7,069 |
| - *Quoted Sukuk – held for trading* | 2,975 | - |
| - *Quoted equity securities (managed portfolio)* | - | 5,622 |
| - *Unquoted fund* | 10,091 | 5,099 |
| *At fair value through equity* | | |
| - *Quoted equity securities (at fair value)* | 6,597 | 16,406 |
| - *Unquoted equity securities (at cost)* | 60,842 | 90,502 |
| | 158,561 | 207,105 |

The Group's investments in quoted sukuk held at amortized cost amounting to US$ 47,896 thousand (31 December 2015: US$ 69,780 thousand) has a fair value amounting to US$ 46,427 thousand (31 December 2015: US$ 67,826 thousand). During the year the Group recognised an impairment allowance on the quoted sukuk of US$ 1,515 thousand (31 December 2015: nil). Quoted sukuk (debt type instrument) with a carrying value of US$ 23,265 (31 December 2015: US$ 26,263) thousand are offered as collateral for the financing facilities relating to Group's operations (note 12).

Fair value loss on unquoted equity securities carried at fair value through income statement amounted to US$ 2,477 thousand (31 December 2015: US$ 8,045 thousand).

Unquoted equity securities of US$ 60,842 thousand (31 December 2015: US$ 90,502) thousand are carried at cost less impairment in the absence of reliable measure of fair value. During the year, the Group recognised impairment allowances of US$ 26,851 thousand (31 December 2015: US$ 12,115 thousand) (note 20) on unquoted equity securities carried at cost.

## 8 ASSETS ACQUIRED FOR LEASING

| | 2016 | 2015 |
|---|---|---|
| Aircraft: | | |
| Cost | | |
| At 1 January | 192,246 | 93,568 |
| Additions during the year | - | 98,678 |
| Disposals | (119,496) | - |
| **At 31 December** | **72,750** | 192,246 |
| Accumulated depreciation | | |
| At 1 January | 7,215 | 1,791 |
| Charge for year | 5,683 | 5,424 |
| Depreciation on disposal | (8,750) | - |
| **At 31 December** | **4,148** | 7,215 |
| **Net book value at 31 December** | **68,602** | 185,031 |

for the year ended 31 December 2016 US$ 000's

## 8 *ASSETS ACQUIRED FOR LEASING (continued)*

Assets acquired for leasing represents 3 Q400 aircraft acquired in 2015 and were previously classified as "held-for-sale" (note 2 (e)). The aircrafts were acquired for leasing through a combination of equity and financing (note 13) and are leased to an aviation services company for a period of 12 years.

Future minimum rentals for the remaining lease period is as given below:

| 2016 | Up to 1 year | 1-5 years | Over 5 years |
|---|---|---|---|
| Future minimum lease rentals | 7,560 | 37,800 | 40,320 |

| 2015 | Up to 1 year | 1-5 years | Over 5 years |
|---|---|---|---|
| Future minimum lease rentals | 10,582 | 52,908 | 45,638 |

Income of assets acquired for leasing:

| | 2016 | 2015 |
|---|---|---|
| Lease rental income | 18,095 | 15,694 |
| Less: | | |
| Finance cost | (4,537) | (3,926) |
| Depreciation | (5,685) | (5,424) |
| Other operating expenses | (695) | (735) |
| **Income of assets acquired for leasing, net** | 7,178 | 5,609 |

## 9 INVESTMENT IN REAL ESTATE

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Land | 30,649 | 22,980 |
| Buildings | 76,615 | 7,054 |
| | 107,264 | 30,034 |

| | 2016 | 2015 |
|---|---|---|
| At 1 January | 30,034 | 43,239 |
| Additions | 81,073 | - |
| Fair value changes | (1,216) | (1,511) |
| Impairment | (2,627) | - |
| Disposals | - | (11,694) |
| **At 31 December** | 107,264 | 30,034 |

for the year ended 31 December 2016 US$ 000's

## 10 EQUITY-ACCOUNTED INVESTEES

Investment in associates comprise:

| | Country of incorporation | % holding | Nature of activities |
|---|---|---|---|
| Ali Iskandar Al Ansari and Partners W.L.L.(i)* | Qatar | 35% | A company operating in earth moving activities |
| Aqari Real Estate Company B.S.C. (c) | Bahrain | 31.88% | Invest in income generating residential, office and commercial real estate assets |
| Alpha Lease and Finance Holding Company BSC (c) (i)* | Bahrain | 30% | Leasing of equipment |
| Apex Real Estate Company B.S.C.(c) (i)* | Bahrain | 30% | Property management company |
| Skaugen Gulf Petchem Carriers B.S.C. (c) | Bahrain | 30% | Petrochemical shipping company with vessels operating through the Norgas Pool |
| Palma Ibdar Air Lease B.S.C (c) | Bahrain | 50% | Managing aircrafts leasing to airline companies. |

* These associates are fully provided for and the financial information below does not include their financial results.

| | 2016 | 2015 |
|---|---|---|
| At 1 January | 12,500 | 12,468 |
| Additions | 337 | |
| Repayments | (5,820) | - |
| Share of profit of equity-accounted investees | 192 | 2,261 |
| Impairment allowance (note 20) | (2,467) | (2,229) |
| At 31 December | 4,742 | 12,500 |

*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 and related subsequent acquisition accounting adjustment (based on most recent management accounts):*

| | 2016 | 2015 |
|---|---|---|
| Assets | 9,595 | 20,465 |
| Liabilities | 6,778 | 186 |
| Revenue | 277 | (2,440) |
| Profit / (loss) for the year | 47 | (2,628) |

for the year ended 31 December 2016 US$ 000's

## 11 OTHER ASSETS

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Project related advances | 7,418 | 140 |
| Accrued profit on sukuk | 671 | 568 |
| Receivables related to assets acquired for leasing | 3,689 | 6,509 |
| Staff receivable | 632 | 509 |
| Prepaid expenses | 624 | 236 |
| Equipment | 349 | 361 |
| Others | 220 | 706 |
| | 13,603 | 9,029 |

## 12 FINANCING LIABILITIES

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Murabaha financing:** | | |
| - Related to Ijarah investors (note 8) | 15,692 | 16,186 |
| - Related to Group's operations | 8,301 | 10,035 |
| Other borrowings | 49,280 | - |
| | 73,273 | 26,221 |

Murabaha financing of US$ 15.7 million (31 December 2015: US$ 16.2 million) relating to Ijarah investors carries profit rate of 5.75% and is repayable on quarterly installments with final installment due in April 2019 and secured against investment properties of Ijarah investors of carrying value US$ 26 million (title held by the Bank on behalf of project investors). All costs of the facilities are borne by the Ijarah investors (using cash flows from income generated from the underlying properties).

The remaining murabaha financing related to the Group's operations comprise two short term facilities from financial institutions for a period of up to 3 months at variable rate of 1.8%-2%. The financing is secured against quoted sukuk of carrying amount US$ 23,265 thousand as at 31 December 2016 (31 December 2015: US$ 26,263 thousand) (note 7).

Other borrowings represents finance availed at variable rate of 2.19% plus 1 Month LIBOR for the purchase of investment in real estate having a tenor of 10 years and is secured against the investment in real estate held through special purpose vehicle and does not have any recourse to the Bank.

## 13 LIABILITIES RELATED TO ASSETS ACQUIRED FOR LEASING

This represents fixed rate notes availed in 2015 for financing the acquisition of each asset acquired for leasing separately (note 8). The notes are repayable in quarterly instalments over a period of 12 years with final installment payable in 2021 carrying a profit rate of 4.5% to 4.6%. The fixed rate notes are secured against the assets acquired for leasing and do not have any recourse to the Bank.

The maturity profile of the liabilities is as given below:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Payable within one year | 6,360 | 13,581 |
| Payable after one year | 45,821 | 130,247 |
| **At 31 December** | 52,181 | 143,828 |

for the year ended 31 December 2016 US$ 000's

## 14 OTHER LIABILITIES

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Accounts payables and accruals | 1,523 | 1,394 |
| Management and other fee payable | - | 1,076 |
| Due to Ijara investors | 341 | 2,264 |
| Due to other investors | 7,651 | 1,730 |
| Provision for employee benefits | 2,092 | 2,177 |
| Others | 2,356 | 3,122 |
| | 13,963 | 11,763 |

## 15 SHARE CAPITAL

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Authorized:** | | |
| 500,000,000 (2015: 500,000,000) ordinary shares at US$ 1 per share | 500,000 | 500,000 |
| **Issued, subscribed and paid-up capital** | | |
| 300,000,000 (2015: 300,000,000) ordinary shares at US$ 1 per share | 300,000 | 300,000 |

## 16 INCOME FROM INVESTMENT SECURITIES

| | 2016 | 2015 |
|---|---|---|
| (Loss) / gain on sale of investment securities | (315) | 233 |
| Dividend income | 22 | 1,157 |
| Gain on sale of sukuk | 2,353 | 2,330 |
| Income from sukuk | 3,781 | 4,377 |
| | 5,841 | 8,097 |

## 17 OTHER INCOME

| | 2016 | 2015 |
|---|---|---|
| Rental income from properties, net | 1,005 | 1,052 |
| Reversal of accruals | 2,086 | 813 |
| Miscellaneous | 132 | 272 |
| | 3,223 | 2,137 |

## 18 STAFF COST

| | 2016 | 2015 |
|---|---|---|
| Salaries and benefits | 5,527 | 6,183 |
| Social insurance expenses | 370 | 328 |
| Other staff expenses | 523 | 441 |
| | 6,420 | 6,952 |

for the year ended 31 December 2016 US$ 000's

## 19 OTHER OPERATING EXPENSES

| | 2016 | 2015 |
|---|---|---|
| Professional expenses | 1,654 | 2,262 |
| Board of directors related expenses | 1,031 | 1,026 |
| Travel and accommodation | 449 | 460 |
| Other expenses | 1,545 | 2,104 |
| | 4,679 | 5,852 |

## 20 IMPAIRMENT ALLOWANCES

| | note | 2016 | 2015 |
|---|---|---|---|
| Financing receivables | 5 | 8,874 | 357 |
| Investment securities: | | | |
| i. Unquoted | 7 | 26,851 | 7,699 |
| ii. Quoted | 7 | 11,434 | 4,416 |
| Investment in real estate | 9 | 2,671 | - |
| Equity-accounted investees | 10 | 2,467 | 2,229 |
| | | 52,297 | 14,701 |

## 21 CONCENTRATION OF ASSETS AND LIABILITIES

**a) Geographic region**
The geographical distribution of the Group's assets and liabilities as of 31 December 2016 is as follows:

| 31 December 2016 | Middle East | Europe | Africa | North America | Others | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with banks | 4,029 | 1,122 | - | - | - | 5,151 |
| Placements with financial institutions | 7,902 | - | - | - | - | 7,902 |
| Financing receivables | 6,746 | - | - | - | 169 | 6,915 |
| Receivable from Ijarah investors | 15,185 | - | - | - | - | 15,185 |
| Investment securities | 113,632 | 27,564 | 11,017 | - | 6,348 | 158,561 |
| Assets acquired for leasing | 68,602 | - | - | - | - | 68,602 |
| Investment in real estate | 30,205 | 4,688 | - | 72,371 | - | 107,264 |
| Equity-accounted investees | 4,742 | - | - | - | - | 4,742 |
| Other assets | 2,196 | 2,820 | 129 | 8,396 | 62 | 13,603 |
| **Total assets** | 253,239 | 36,194 | 11,146 | 80,767 | 6,579 | 387,925 |
| **Liabilities** | | | | | | |
| Placements from financial institutions | 5,002 | - | - | - | 1,501 | 6,503 |
| Financing liabilities | 18,492 | 5,501 | - | 49,280 | - | 73,273 |
| Liabilities related to assets acquired for leasing | - | - | - | 52,181 | - | 52,181 |
| Other liabilities | 13,570 | - | 4 | 386 | 3 | 13,963 |
| **Total liabilities** | 37,064 | 5,501 | 4 | 101,847 | 1,504 | 145,920 |

for the year ended 31 December 2016 US$ 000's

*21 CONCENTRATION OF ASSETS AND LIABILITIES (continued)*

*a) Geographic region (continued)*

| 31 December 2015 | Middle East | Europe | Africa | North America | Others | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with banks | 9,762 | 3,320 | - | - | 117 | 13,219 |
| Placements with financial institutions | 2,002 | - | - | - | - | 2,002 |
| Financing receivables | 6,811 | - | 8,000 | - | 162 | 14,973 |
| Receivable from Ijarah investors | 15,662 | - | - | - | - | 15,662 |
| Investment securities | 175,565 | 25,715 | 3,312 | - | 2,513 | 207,105 |
| Assets acquired for leasing | 71,408 | - | 113,623 | - | - | 185,031 |
| Investment in real estate | 30,034 | - | - | - | - | 30,034 |
| Equity-accounted investees | 12,500 | - | - | - | - | 12,500 |
| Other assets | 2,116 | 19 | 130 | 6,509 | 255 | 9,029 |
| Total assets | 325,880 | 29,054 | 125,065 | 6,509 | 3,047 | 489,555 |
| **Liabilities** | | | | | | |
| Placements from financial institutions | 2,662 | - | - | - | 1,501 | 4,163 |
| Financing liabilities | 16,185 | 10,036 | - | - | - | 26,221 |
| Liabilities related to assets acquired for leasing | - | - | - | 143,828 | - | 143,828 |
| Other liabilities | 9,751 | - | 861 | - | 1,151 | 11,763 |
| Total liabilities | 28,598 | 10,036 | 861 | 143,828 | 2,652 | 185,975 |

*21 CONCENTRATION OF ASSETS AND LIABILITIES (continued)*

for the year ended 31 December 2016 US$ 000's

b) Industry sector

The industrial distribution of the Group's assets and liabilities as of 31 December 2016 is as follows:

| 31 December 2016 | Banks and financial institutions | Real estate | Aviation | Others | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with banks | 5,151 | - | - | - | 5,151 |
| Placements with financial institutions | 7,902 | - | - | - | 7,902 |
| Financing receivables | - | 6,746 | - | 169 | 6,915 |
| Receivable from Ijarah investors | - | - | - | 15,185 | 15,185 |
| Investment securities | 66,240 | 46,309 | 3,497 | 42,515 | 158,561 |
| Assets acquired for leasing | - | - | 68,602 | - | 68,602 |
| Investment in real estate | - | 107,264 | - | - | 107,264 |
| Equity-accounted investees | - | 688 | 4,054 | - | 4,742 |
| Other assets | 422 | 7,614 | 3,709 | 1,858 | 13,603 |
| **Total assets** | 79,715 | 168,621 | 79,862 | 59,727 | 387,925 |
| **Liabilities** | | | | | |
| Placements from financial institutions | 6,503 | - | - | - | 6,503 |
| Financing liabilities | 23,993 | 49,280 | - | - | 73,273 |
| Liabilities related to assets acquired for leasing | - | - | 52,181 | - | 52,181 |
| Other liabilities | - | 2,593 | 584 | 10,786 | 13,963 |
| **Total liabilities** | 30,496 | 51,873 | 52,765 | 10,786 | 145,920 |

for the year ended 31 December 2016 US$ 000's

*21 CONCENTRATION OF ASSETS AND LIABILITIES (continued)*

*b) Industry sector (continued)*

| 31 December 2015 | Banks and financial institutions | Real estate | Aviation | Others | Total |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and balances with banks | 13,219 | - | - | - | 13,219 |
| Placements with financial institutions | 2,002 | - | - | - | 2,002 |
| Financing receivables | - | 6,810 | - | 8,163 | 14,973 |
| Receivable from Ijarah investors | - | - | - | 15,662 | 15,662 |
| Investment securities | 51,792 | 69,396 | 1,218 | 84,699 | 207,105 |
| Assets acquired for leasing | 89,951 | - | 95,080 | - | 185,031 |
| Investment in real estate | - | 30,034 | - | - | 30,034 |
| Equity-accounted investees | - | 3,640 | - | 8,860 | 12,500 |
| Other assets | 186 | 322 | 127 | 8,394 | 9,029 |
| Total assets | 157,150 | 110,202 | 96,425 | 125,778 | 489,555 |
| Liabilities | | | | | |
| Placements from financial institutions | 4,163 | - | - | - | 4,163 |
| Financing liabilities | 26,221 | - | - | - | 26,221 |
| Liabilities related to assets acquired for leasing | - | - | 143,828 | - | 143,828 |
| Other liabilities | - | 3,262 | 2,547 | 5,954 | 11,763 |
| Total liabilities | 30,384 | 3,262 | 146,375 | 5,954 | 185,975 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2016 US$ 000's

## 22 MATURITY PROFILE OF ASSETS AND LIABILITIES

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

| 31 December 2016 | Up to 3 months | 3 months to 1 year | Total up to 1 year | 1 to 5 years | 5 to 10 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with banks | 5,151 | - | 5,151 | - | - | - | 5,151 |
| Placements with financial institutions | 7,902 | - | 7,902 | - | - | - | 7,902 |
| Financing receivables | - | - | - | 6,915 | - | - | 6,915 |
| Receivable from Ijarah investors | - | - | - | 15,185 | - | - | 15,185 |
| Investment securities | 14,244 | 4,897 | 19,141 | 12,057 | 30,458 | 96,905 | 158,561 |
| Assets acquired for leasing | - | 68,602 | 68,602 | - | - | - | 68,602 |
| Investment in real estate | - | - | - | - | - | 107,264 | 107,264 |
| Equity-accounted investees | - | - | - | - | - | 4,742 | 4,742 |
| Other assets | 7,927 | 4,523 | 12,450 | 803 | - | 350 | 13,603 |
| **Total assets (a)** | **35,224** | **78,022** | **113,246** | **34,960** | **30,458** | **209,261** | **387,925** |
| **Liabilities** | | | | | | | |
| Placements from financial institutions | 6,503 | - | 6,503 | - | - | - | 6,503 |
| Financing liabilities | 8,301 | - | 8,301 | 15,692 | 49,280 | - | 73,273 |
| Liabilities related to assets acquired for leasing | 1,272 | 3,816 | 5,088 | 20,353 | 26,740 | - | 52,181 |
| Other liabilities | 6,907 | 6,225 | 13,132 | 196 | - | 635 | 13,963 |
| **Total liabilities (b)** | **22,983** | **10,041** | **33,024** | **36,241** | **76,020** | **635** | **145,920** |
| **Commitments (c)** | - | 16,195 | 16,195 | 242 | - | - | 16,437 |
| **Net liquidity gap (a-b-c)** | **12,241** | **51,786** | **64,027** | **(1,523)** | **(45,562)** | **208,626** | **225,568** |
| **Cumulative net liquidity gap** | **12,241** | **64,027** | - | **62,504** | **16,942** | **225,568** | - |

for the year ended 31 December 2015 US$ 000's

*22 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)*

| 31 December 2015 | Up to 3 months | 3 months to 1 year | Total up to 1 year | 1 to 5 years | 5 to 10 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Cash and balances with banks | 13,219 | - | 13,219 | - | - | - | 13,219 |
| Placements with financial institutions | 2,002 | - | 2,002 | - | - | - | 2,002 |
| Financing receivables | - | 8,000 | 8,000 | 6,973 | - | - | 14,973 |
| Receivable from Ijarah investors | - | - | - | 15,662 | - | - | 15,662 |
| Investment securities | - | 22,193 | 22,193 | 23,245 | 30,605 | 131,062 | 207,105 |
| Assets acquired for leasing | 89,951 | 95,080 | 185,031 | - | - | - | 185,031 |
| Investment in real estate | - | - | - | - | - | 30,034 | 30,034 |
| Equity-accounted investees | - | - | - | - | - | 12,500 | 12,500 |
| Other assets | 7,183 | 513 | 7,696 | 905 | - | 428 | 9,029 |
| Total assets (a) | 112,355 | 125,786 | 238,141 | 46,785 | 30,605 | 174,024 | 489,555 |
| Liabilities | | | | | | | |
| Placements from financial institutions | 1,501 | 2,662 | 4,163 | - | - | - | 4,163 |
| Financing liabilities | 10,036 | - | 10,036 | 16,185 | - | - | 26,221 |
| Liabilities related to assets acquired for leasing | 3,395 | 10,186 | 13,581 | 67,585 | 62,662 | - | 143,828 |
| Other liabilities | (11) | 11,199 | 11,188 | 185 | - | 390 | 11,763 |
| Total liabilities (b) | 14,921 | 24,047 | 38,968 | 83,955 | 62,662 | 390 | 185,975 |
| Commitments (c) | - | 12,052 | 12,052 | 673 | - | - | 12,725 |
| Net liquidity gap (a-b-c) | 97,434 | 89,687 | 187,121 | (37,843) | (32,057) | 173,634 | 290,855 |
| Cumulative net liquidity gap | 97,434 | 187,121 | - | 149,278 | 117,221 | 290,855 | - |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
for the year ended 31 December 2016 US$ 000's

## 23 RELATED PARTY BALANCES AND TRANSACTIONS

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

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

| | 31 December 2016 | | | | | 31 December 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Associates | Directors/ key Management personnel Shari'a board members | Major shareholders / entities in which directors are interested | Assets under management | Total | Associates | Directors/ key Management personnel Shari'a board members | Major shareholders / entities in which directors are interested | Assets under management | Total |
| **Assets** | | | | | | | | | | |
| Cash and balances with banks | - | - | 15 | - | 15 | - | - | 413 | - | 413 |
| Financing receivables | - | - | - | 6,746 | 6,746 | - | - | - | 14,810 | 14,810 |
| Receivable from Ijarah investors | - | - | - | 15,185 | 15,185 | - | - | - | 15,662 | 15,662 |
| Investment securities | 10,150 | - | - | - | 10,150 | 11,650 | - | - | 977 | 12,627 |
| Equity-accounted investees | 4,742 | - | - | - | 4,742 | 12,500 | - | - | - | 12,500 |
| Other assets | 5 | - | - | - | 5 | - | - | - | 193 | 193 |
| **Liabilities** | | | | | | | | | | |
| Due to investors | - | - | - | - | - | - | - | 157 | - | 157 |
| Other liabilities | 83 | 1,209 | 12 | 545 | 1,849 | 80 | 876 | 12 | 2,040 | 3,008 |
| **Off-balance sheet** | | | | | | | | | | |
| Commitments | - | - | - | 7,069 | 7,069 | - | - | - | 4,566 | 4,566 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**for the year ended 31 December 2016** US$ 000's

## *23 RELATED PARTY BALANCES AND TRANSACTIONS (continued)*

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

| | 2016 | | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Associates | Directors / key management personnel Shari'a board members | Major shareholders / entities in which directors are interested | Assets under management | Total | Associates | Directors / key management personnel Shari'a board Members | Major shareholders / entities in which directors are interested | Assets under management | Total |
| **Income** | | | | | | | | | | |
| Finance income | - | - | - | 920 | 920 | - | - | - | 655 | 655 |
| Share of profit / (loss) of equity-accounted investees | 192 | - | - | - | 192 | 2,261 | - | - | - | 2,261 |
| Fair value loss | (1,500) | - | - | (977) | (2,477) | - | - | (4,725) | - | (4,725) |
| Income from investment banking services | - | - | - | - | - | - | - | - | 261 | 261 |
| Other income | - | 400 | - | - | 400 | - | - | - | - | - |
| **Expenses** | | | | | | | | | | |
| Staff cost | - | 1,976 | - | - | 1,976 | - | 611 | - | - | 611 |
| Other expenses | - | 1,031 | - | - | 1,031 | - | 1,026 | - | - | 1,026 |
| Finance expense | - | - | - | 920 | 920 | - | - | - | 655 | 655 |
| Impairment allowances | 2,467 | - | - | 8,000 | 10,467 | 2,229 | - | - | 376 | 2,605 |

for the year ended 31 December 2016 US$ 000's

## 24 COMMITMENTS

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Uncalled capital commitments in respect of investment | 15,953 | 12,048 |
| Commitment related to project developments | - | 132 |
| Operating lease commitments: | | |
| - Within one year | 242 | 242 |
| - One to three years | 242 | 303 |
| | 16,437 | 12,725 |

## 25 FINANCIAL RISK MANAGEMENT

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

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

The Group has a risk management and governance framework which is intended to integrate risk management in its strategic thinking and business practices.

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

***Risk Management and Governance Structure***

*Board of Directors*

The Board of Directors of the Group has overall responsibility for establishing the Group's approach to risk and ensuring that an effective risk management framework is in place. The Board approves and periodically reviews the risk management policies and strategies of the Group.

*Audit, Risk & Compliance Committee*

The mandate of the Audit, Risk and Compliance Committee ("ARCC") requires it to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices and its oversight responsibilities with regards to development of risk management framework across all spectrums of business and operational activities conducted by the Group. The committee is responsible to assist the Board in its oversight of (i) the integrity and reporting of the Group's quarterly and annual consolidated financial statements, (ii) compliance with legal and regulatory requirements; and (iii) the independence and performance of the Group's internal and external auditors. The Committee also reviews the activities and performance of the internal audit function. The committee is also responsible for assessment of the efficiency of overall risk management function of the Group and compliance with regulatory requirements relating to risk management. The committee also ensures transparency and timeliness of internal and external disclosures on risk matters.

*Shari'a Supervisory Board*

The Group's compliance with Shari'a principles is overseen by an external and independent Shari'a Supervisory Board (SSB), fully supported by the Group's other departments. The SSB is responsible for ensuring that there is an ongoing process of reviewing and auditing for Shari'a compliance in accordance with AAOIFI standards for existing and new investments. The SSB ensures that all investments undertaken by the lines of business are structured in such a manner that investments comply strictly with Shari'a principles.

*25 FINANCIAL RISK MANAGEMENT (continued)*

*Asset and Liability Committee*
The Asset and Liability Committee ("ALCO") establishes policy and objectives for management of the Group's assets and liabilities in terms of structure, distribution, risk and return and its impact on profitability. It also monitors cash flows, tenor and cost/yield profiles of assets and liabilities and evaluates the Group's consolidated statement of financial position both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions, monitors liquidity and foreign exchange exposures and positions.

*Investment, Credit & Risk Committee*
The Investment Credit & Risk Committee ("ICRC") comprises of the Chief Executive Officer (currently Acting Chief Executive Officer), Chief Investment Officer and Chief Financial Officer as voting members, in addition to the Heads of Risk Management, Treasury and Legal as non-voting members. In addition to facilitating the credit and investment decisions, the ICRC's mission is to establish and maintain a risk management framework throughout the Group to best manage Bank's shareholders and client interests. Its mandate is to identify, assess and measure risks arising from the Group's activities, and to define the appropriate course of action to mitigate or manage them.

*Risk Management Department*
The Risk Management Department ("RMD") is responsible for implementing and maintaining risk related policies & procedures to ensure an independent control process. It provides oversight compliance with risk principles, policies and limits across the Group. The department is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This department also ensures complete capture of the risks in risk measurement and reporting.

*Internal Audit*
Internal Audit is responsible for carrying out a risk-based program designed to provide assurance that assets are being safeguarded. This involves ensuring that controls are in place and working effectively in accordance with Group policies and procedures as well as with laws and regulations. The work carried out by Internal Audit includes providing assurance on the effectiveness of the risk management functions as well as that of controls operated by the business units. The ARCC approves the annual audit plan and also receives regular reports of the results of audit work.

*Risk Management and Reporting Structure*

The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Group has established relevant risk limit structures to quantify its risk appetite. ARCC reviews and recommends the limits, suggested by the ICRC to the Board which is ultimately responsible for the final approval of the limit. The monitoring and controlling of risks is managed through limits set by the ICRC. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

The RMD presents reports to the Board of Directors through ICRC and ARCC. These reports include risk and investment review of Group's portfolio and its impact on Group's capital adequacy, liquidity and profitability.

As part of the Risk Management's reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A periodic briefing is given to the Executive Management and all other relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

for the year ended 31 December 2016 US$ 000's

*25 FINANCIAL RISK MANAGEMENT (continued)*

a) **Credit risk**

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

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

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

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

*Maximum exposure to credit risk*

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position. The figures represent gross exposure net of any provision for impairment, without taking into account any collateral held and other credit mitigants.

| | *Maximum exposure* | |
|---|---|---|
| | **31 December 2016** | 31 December 2015 |
| Balances with banks | 5,151 | 13,219 |
| Placements with financial institutions | 7,902 | 2,002 |
| Financing receivables | 6,915 | 14,973 |
| Receivable from ijarah investors | 15,185 | 15,662 |
| Investment securities (debt type sukuk) | 47,896 | 69,780 |
| Other financial assets | 12,347 | 8,284 |
| | **95,396** | 123,920 |

for the year ended 31 December 2016 US$ 000's

*25 FINANCIAL RISK MANAGEMENT (continued)*

*Credit quality per class of financial assets*

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

| 31 December 2016 | Balances with banks | Placements with financial Institutions | Financing receivables | Receivable from ijarah investors | Investment securities | Other financial assets | Total |
|---|---|---|---|---|---|---|---|
| Prime to High grade: AAA – AA- | 1,122 | - | - | - | - | - | 1,122 |
| Medium grade: A+ – BBB- | 2,200 | 3,002 | - | - | 24,917 | 261 | 30,380 |
| Non-investment / speculative: BB+ - C | 60 | 2,900 | - | - | 4,497 | 4 | 7,461 |
| Unrated | 1,769 | 2,000 | 6,915 | 15,185 | 18,482 | 12,082 | 56,433 |
| **Total** | 5,151 | 7,902 | 6,915 | 15,185 | 47,896 | 12,347 | 95,396 |

| 31 December 2015 | Balances with banks | Placements with financial institutions | Financing receivables | Receivable from ijarah investors | Investment securities | Other financial assets | Total |
|---|---|---|---|---|---|---|---|
| Prime to High grade: AAA – AA- | 3,037 | - | - | - | - | 5 | 3,042 |
| Medium grade: A+ – BBB- | - | - | - | - | 30,840 | - | 30,840 |
| Non-investment / speculative: BB+ - C | 459 | - | - | - | 4,840 | 108 | 5,407 |
| Unrated | 9,723 | 2,002 | 14,973 | 15,662 | 34,100 | 8,171 | 84,631 |
| Total | 13,219 | 2,002 | 14,973 | 15,662 | 69,780 | 8,284 | 123,920 |

*Concentration risk*

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Group seeks to manage the concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The Group's financial assets with credit risk, before taking into account any collateral held or other credit enhancements, can be analysed by the following industry sector:

for the year ended 31 December 2016 US$ 000's

*25 FINANCIAL RISK MANAGEMENT (continued)*

*Credit risk (continued)*

| **31 December 2016** | **Neither past due not impaired** | **Past due but not impaired** | **Individually impaired** | **Impairment / provisions** | **Total** |
|---|---|---|---|---|---|
| Balances with banks | 5,151 | - | - | - | 5,151 |
| Placements with financial institutions | 7,902 | - | - | - | 7,902 |
| Financing receivables | 6,746 | - | 8,779 | (8,610) | 6,915 |
| Receivable from Ijarah investors | 15,185 | - | - | - | 15,185 |
| Investment securities (debt type sukuk) | 47,896 | - | 1,915 | (1,915) | 47,896 |
| Other financial assets | 12,347 | - | - | - | 12,347 |
| | **95,227** | **-** | **10,694** | **(10,525)** | **95,396** |

| 31 December 2015 | Neither past due not impaired | Past due but not impaired | Individually impaired | Impairment / provisions | Total |
|---|---|---|---|---|---|
| Balances with banks | 13,219 | - | - | - | 13,219 |
| Placements with financial institutions | 2,002 | - | - | - | 2,002 |
| Financing receivables | 6,810 | - | 8,779 | (616) | 14,973 |
| Receivable from Ijarah investors | 15,662 | - | - | - | 15,662 |
| Investment securities (debt type sukuk) | 68,272 | - | 1,908 | (400) | 69,780 |
| Other financial assets | 8,284 | - | - | - | 8,284 |
| | 114,249 | - | 10,687 | (1,016) | 123,920 |

For exposures that are past due but not impaired, the management has assessed that the value of properties on which finance is provided is higher and these properties are registered in our name/provided as collateral, no impairment allowance was provided.

*Aging analysis of past due but not impaired*

| **31 December 2016** | **90 - 180 days** | **180-365 days** | **1-3 years** | **Over 3 years** | **Total** |
|---|---|---|---|---|---|
| Financing receivables | - | - | - | 15,185 | **15,185** |
| | - | - | - | 15,185 | **15,185** |

| 31 December 2015 | 90 - 180 days | 180-365 days | 1-3 years | Over 3 years | Total |
|---|---|---|---|---|---|
| Financing receivables | - | - | 15,662 | - | 15,662 |
| | - | - | 15,662 | - | 15,662 |

for the year ended 31 December 2016 US$ 000's

*25 FINANCIAL RISK MANAGEMENT (continued)*

**b) Liquidity risk**

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

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

Treasury department is overall responsible for ensuring that the limits enacted are adhered to, on a day-to-day basis and managing excess liquidity of the Group through short term placements and investments. Treasury department maintains a constant communication with the banks which have extended a committed short term financing line to the Group. Treasury department provides a monthly report to the ALCO regarding the dependability and reliability of these banks. Treasury department also monitors the market conditions.

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

| | **Gross undiscounted cash flows** | | | | **Carrying value** |
|---|---|---|---|---|---|
| | **Less than 3 months** | **3 to 12 months** | **Over 1 year** | **Total** | |
| **At 31 December 2016** | | | | | |
| Placements from financial institutions | 6,509 | - | - | 6,509 | 6,503 |
| Financing liabilities | 8,671 | 1,057 | 65,611 | 75,339 | 73,273 |
| Liabilities related to assets acquired for leasing | 1,272 | 3,816 | 48,338 | 53,426 | 52,181 |
| Other financial liabilities | 6,907 | 6,225 | 831 | 13,963 | 13,963 |
| **Total financial liabilities** | **23,359** | **11,098** | **114,780** | **149,237** | **145,920** |
| Commitments | - | 16,195 | 242 | 16,437 | 16,437 |

| | Gross undiscounted cash flows | | | | Carrying value |
|---|---|---|---|---|---|
| | Less than 3 months | 3 to 12 months | Over 1 year | Total | |
| At 31 December 2015 | | | | | |
| Placements from financial institutions | 1,501 | 2,685 | - | 4,186 | 4,163 |
| Financing liabilities | 363 | 11,099 | 17,714 | 29,176 | 26,221 |
| Liabilities related to assets acquired for leasing | 3,723 | 11,168 | 146,954 | 161,845 | 143,828 |
| Other financial liabilities | (11) | 11,199 | 575 | 11,763 | 11,763 |
| Total financial liabilities | 5,576 | 36,151 | 165,243 | 206,970 | 185,975 |
| Commitments | - | 12,052 | 673 | 12,725 | 12,725 |

*25 FINANCIAL RISK MANAGEMENT (continued)*

c) **Market risks**

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

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

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

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

*Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Most of the transactions completed by the Group are in US Dollar. However, in the normal course of business certain non-trading monetary assets and liabilities are in other currencies and give rise to currency risk.

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

*Equity price risk*

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2016, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus US$ 330 thousand (2015: US$ 820 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The Group also has unquoted investments carried at fair value using either net asset value or valuations from independent valuers. Based on the values at 31 December 2016, a change in the valuation of 5% would change the value of these investments by plus or minus US$ 3,042 thousand (2015: US$ 4,525 thousand) with a corresponding increase or decrease in equity, except in case of further decline on impaired investments which will result in loss being taken to consolidated statement of income.

*Prepayment risk*

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

*Profit rate risk in banking book*

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

for the year ended 31 December 2016 US$ 000's

*25 FINANCIAL RISK MANAGEMENT (continued)*

*(c) Market risks (continued)*

| **31 December 2016** | **Up to 3 months** | **3 months to 1 year** | **1 to 5 years** | **Above 5 years** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Placements with financial institutions | 7,902 | - | - | - | 7,902 |
| Financing receivables | - | - | 6,915 | - | 6,915 |
| Investment securities | - | 4,897 | 12,057 | 30,942 | 47,896 |
| **Total profit rate sensitive assets** | **7,902** | **4,897** | **18,972** | **30,942** | **62,713** |
| **Liability** | | | | | |
| Placements from financial institutions | 6,503 | - | - | - | 6,503 |
| Financing liabilities | 8,301 | - | 15,692 | 49,280 | 73,273 |
| Liabilities related to assets acquired for leasing | 1,272 | 3,816 | 20,353 | 26,740 | 52,181 |
| **Total profit rate sensitive liabilities** | **16,076** | **3,816** | **36,045** | **76,020** | **131,957** |
| **Profit rate sensitivity gap** | **(8,174)** | **1,081** | **(17,073)** | **(45,078)** | **(69,244)** |

| 31 December 2015 | Up to 3 months | 3 months to 1 year | 1 to 5 years | Above 5 years | Total |
|---|---|---|---|---|---|
| Assets | | | | | |
| Placements with financial institutions | 2,002 | - | - | - | 2,002 |
| Financing receivables | - | 8,000 | 6,973 | - | 14,973 |
| Investment securities | - | 10,543 | 23,245 | 35,992 | 69,780 |
| Total profit rate sensitive assets | 2,002 | 18,543 | 30,218 | 35,992 | 86,755 |
| Liability | | | | | |
| Placements from financial institutions | 1,501 | 2,662 | - | - | 4,163 |
| Financing liabilities | 10,035 | - | 16,186 | - | 26,221 |
| Liabilities related to assets acquired for leasing | 3,395 | 10,186 | 67,585 | 62,662 | 143,828 |
| Total profit rate sensitive liabilities | 14,931 | 12,848 | 83,771 | 62,662 | 174,212 |
| Profit rate sensitivity gap | (12,929) | 5,695 | (53,553) | (26,670) | (87,457) |

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by US$ (1,385) thousand (2015:US$ (1,749) thousand).

**d) Operational Risk**

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

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

for the year ended 31 December 2016 US$ 000's

*25 FINANCIAL RISK MANAGEMENT (continued)*

*d) Operational Risk (continued)*

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

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

**26 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

**Valuation techniques**

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

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

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

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

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

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

| **31 December 2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Investments carried at | | | | |
| - fair value through income statement | 24,336 | - | 10,150 | 34,486 |
| - fair value through equity | 6,596 | - | - | 6,596 |
| | **30,932** | **-** | **10,150** | **41,082** |

for the year ended 31 December 2016 US$ 000's

*26 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)*

| 31 December 2015<br>Investments carried at | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| - fair value through income statement | 17,790 | - | 12,627 | 30,417 |
| - fair value through equity | 1,368 | - | 15,038 | 16,406 |
| | 19,158 | - | 27,665 | 46,823 |

*Movements in level 3 financial instruments*

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

| **Investments carried at fair value through:** | **At 1 January 2016** | **Total losses recorded in consolidated income statement** | **Total gains recorded in equity** | **Purchases** | **Sales/ transfers** | **At 31 December 2016** |
|---|---|---|---|---|---|---|
| - income statement | 12,627 | (2,477) | - | - | - | 10,150 |
| - equity | 15,038 | - | - | - | (15,038) | - |
| | **27,665** | **(2,477)** | **-** | **-** | **(15,038)** | **10,150** |

| Investments carried at fair value through: | At 1 January 2015 | Total losses recorded in consolidated income statement | Total gains recorded in equity | Purchases | Sales/ transfers | At 31 December 2015 |
|---|---|---|---|---|---|---|
| - income statement | 9,022 | (8,045) | - | 11,650 | - | 12,627 |
| - equity | 19,454 | (4,416) | - | - | - | 15,038 |
| | 28,476 | (12,461) | - | 11,650 | - | 27,665 |

*Transfers between level 1, level 2 and level 3*

During the year ended 31 December 2016 an investment of US$ 15,038 thousand was transferred from level 3 to level 1.

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

## 27 SHARI'A SUPERVISORY BOARD

The Group's independent Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

## 28 EARNINGS PROHIBITED BY SHARI'A

Earnings prohibited by Shari'a, if earned are set aside for charitable purposes or otherwise dealt with in accordance with directions of the Shari'a Supervisory Board.

## 29 ASSETS UNDER MANAGEMENT

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position. In 2016 total assets under management amounted to US$ 100 million (31 December 2015 US$ 107 million). This includes amounts that were previously reported as restricted investment accounts. Based on an exercise of reassessment of the contractual agreements with investors. The agreements that do not qualify as restricted investment accounts but qualify as assets under management products are reclassified here including the previous period reported.

## 30 CAPITAL MANAGEMENT

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

The Group's regulatory capital is analysed into two tiers:

- *Tier 1 capital*: includes CET1 and AT1

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

  AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

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

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

As at 31 December the Group has made regulatory adjustments of US$ 1,461 thousand (31 December 2015: US$ 2,698 thousand) in line with the requirements of CA module.

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

for the year ended 31 December 2016 US$ 000's

*31 CAPITAL MANAGEMENT (continued)*

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

| | 2016 | 2015 |
|---|---|---|
| **Total risk-weighted exposures** | 718,642 | 585,152 |
| CET1 capital | 244,826 | 283,473 |
| Tier 1 capital | 244,826 | 283,473 |
| Total Capital | 245,051 | 285,639 |
| **% of Total Risk Weighted Exposures (CAR)** | | |
| CET1 capital adequacy ratio | 34.07% | 48.44% |
| Tier1 capital adequacy ratio | 34.07% | 48.44% |
| Total capital adequacy ratio | 34.10% | 48.81% |

The Group has complied with all externally imposed capital requirements throughout the year.

## 31 SOCIAL RESPONSIBILITY

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

## 32 COMPARATIVES

Certain prior year amounts have been regrouped to conform to current year's presentation. Such regrouping did not affect previously reported loss for the year or owners' equity except to the effect of restatement mentioned in note 2(e).