Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SALAM BANK-BAHRAIN B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Al Salam Bank-Bahrain B.S.C. ["the Bank"] and its subsidiaries [together "the Group"] as of 31 December 2016, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. 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 Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. 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 the Bank's Board of Directors, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2016, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other matters

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

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

b) the financial information contained in the report of the Board of Directors is consistent with the consolidated financial statements.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SALAM BANK-BAHRAIN B.S.C. (continued)

Other matters (continued)

We are not aware of any violations 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, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst & Young

Partner's registration no. 115
15 February 2017
Manama, Kingdom of Bahrain

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Note	2016 BD '000	2015 BD '000
ASSETS			
Cash and balances with banks and Central Bank	5	**131,990**	152,572
Sovereign Sukuk		**358,269**	350,474
Murabaha and Wakala receivables from banks	6	**182,452**	103,345
Corporate Sukuk	7	**28,934**	50,472
Murabaha financing	8	**232,556**	245,168
Mudaraba financing	9	**238,313**	239,031
Ijarah Muntahia Bittamleek	10	**188,485**	155,217
Musharaka		**12,304**	7,154
Assets under conversion	12	**34,465**	32,032
Non-trading investments	13	**122,073**	123,514
Investments in real estate	14	**51,863**	68,786
Development properties	15	**17,781**	49,021
Investment in associates	16	**10,561**	9,994
Other assets	17	**25,436**	43,892
Goodwill	18	**25,971**	25,971
Assets classified as held-for-sale	19	**19,840**	-
TOTAL ASSETS		**1,681,293**	1,656,643
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Murabaha and Wakala payables to banks		**132,032**	120,795
Murabaha and Wakala payables to non-banks		**723,439**	842,570
Current accounts		**279,609**	224,366
Liabilities under conversion	12	**217**	2,327
Term financing	20	**91,837**	35,986
Other liabilities	21	**49,043**	48,246
Liabilities relating to assets classified as held-for-sale	19	**11,421**	-
TOTAL LIABILITIES		**1,287,598**	1,274,290
EQUITY OF INVESTMENT ACCOUNTHOLDERS	22	**68,796**	62,351
OWNERS' EQUITY			
Share capital	23	**214,093**	214,093
Treasury stock	23	**(1,646)**	-
Reserves and retained earnings		**100,213**	94,140
Proposed appropriations	23	**10,705**	10,705
Total equity attributable to shareholders of the Bank		**323,365**	318,938
Non-controlling interest		**1,534**	1,064
TOTAL OWNERS' EQUITY		**324,899**	320,002
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**1,681,293**	1,656,643

Sh. Hessa Bint Khalifa Al Khalifa
Chairperson of the Board

Yousif A. Taqi
Director & Chief Executive Officer

The attached notes 1 to 46 form part of these consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2016

	Note	2016 BD '000	2015 BD '000
OPERATING INCOME			
Income from financing contracts	26	**38,850**	44,530
Income from Sukuk		**15,930**	17,242
Gains on sale of investments and Sukuk	27	**15,153**	8,334
Income from investments	28	**1,819**	3,249
Fair value changes on investments		**2,477**	399
Dividend income		**891**	820
Foreign exchange gains		**2,146**	870
Fees, commission and other income - net	29	**7,929**	9,184
		85,195	84,628
Profit on Murabaha and Wakala payables to banks		**(1,910)**	(931)
Profit on Wakala payables to non-banks		**(18,046)**	(23,805)
Profit on term financing		**(2,120)**	(839)
Return on equity of investment accountholders before Group's share as a Mudarib	22	**(216)**	(282)
Group's share as a Mudarib	22	**97**	127
		(119)	(155)
Total operating income		**63,000**	58,898
OPERATING EXPENSES			
Staff cost		**11,523**	12,474
Premises and equipment cost		**2,021**	2,752
Depreciation		**3,060**	2,254
Other operating expenses		**9,454**	8,874
Total operating expenses		**26,058**	26,354
PROFIT BEFORE PROVISIONS AND RESULTS OF ASSOCIATES		**36,942**	32,544
Provision for impairment - net	11	**(21,573)**	(22,851)
Share of profit from associates	16	**727**	855
Net profit for the year		**16,096**	10,548
ATTRIBUTABLE TO:			
- Shareholders of the Bank		**16,219**	12,346
- Non-controlling interest		**(123)**	(1,798)
		16,096	10,548
Weighted average number of shares (in '000)	25	**2,140,820**	2,140,931
Basic and diluted earnings per share (fils)		**7.6**	5.8

Sh. Hessa Bint Khalifa Al Khalifa
Chairperson of the Board

Yousif A. Taqi
Director & Chief Executive Officer

The attached notes 1 to 46 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 BD '000	2015 BD '000
OPERATING ACTIVITIES			
Net profit for the year		16,096	10,548
Adjustments:			
Depreciation		3,060	1,821
Amortisation of premium on Sukuk - net		1,630	1,945
Fair value changes on investments		(2,441)	(481)
Provision for financing and investments - net		21,573	22,851
Share of profit from associates		(727)	(855)
Operating income before changes in operating assets and liabilities		39,191	35,829
Changes in operating assets and liabilities:			
Mandatory reserve with Central Bank		2,727	10,109
Murabaha and Wakala receivables from banks with original maturities of 90 days or more		-	8,976
Murabaha financing		3,756	41,797
Mudaraba financing		182	(4,886)
Ijarah Muntahia Bittamleek		(32,893)	11,033
Musharaka financing		(5,150)	4,272
Assets under conversion		(8,576)	140,870
Other assets		16,665	(20,187)
Assets and liabilities classified as held-for-sale		(8,419)	-
Murabaha and Wakala payables to banks		11,237	(471)
Wakala from non-banks		(119,131)	(245,716)
Current accounts		46,062	(2,282)
Liabilities under conversion		(2,110)	(64,855)
Other liabilities		248	2,729
Net cash used in operating activities		(56,211)	(82,782)
INVESTING ACTIVITIES			
Net cash flow arising on acquisition of a subsidiary	3	8,723	-
Cash paid on acquisition of a subsidiary	3	(726)	-
Sovereign Sukuk		(8,994)	(156,993)
Corporate Sukuk		21,107	22,883
Non-trading investments		807	21,546
Investments in real estate		16,904	(2,088)
Development properties		31,240	10,241
Purchase of premises and equipment		(1,664)	(237)
Net movements in non-controlling interest		120	(6,800)
Net cash from / (used in) investing activities		67,517	(111,448)
FINANCING ACTIVITIES			
Term financing		55,851	15,564
Equity of investment accountholders		6,445	5,994
Dividends paid		(10,705)	(10,705)
Dividends paid to non-controlling interest		-	(566)
Purchase of treasury stock		(1,646)	-
Term financing paid		-	(915)
Net cash from financing activities		49,945	9,372
NET CHANGE IN CASH AND CASH EQUIVALENTS		61,251	(184,858)
Cash and cash equivalents at 1 January		223,677	408,535
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		284,928	223,677
Cash and cash equivalents comprise of:			
Cash and other balances with Central Bank of Bahrain	5	72,356	81,448
Balances with other banks	5	30,120	38,884
Murabaha and Wakala receivables from banks with original maturities of less than 90 days		182,452	103,345
		284,928	223,677

The attached notes 1 to 46 form part of these consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Year ended 31 December 2016

Amounts in BD '000s

	Attributable to shareholders of the Bank												
			Reserves										
	Share capital	*Treasury stock*	*Statutory reserve*	*Retained earnings*	*Changes in fair value*	*Real estate fair value reserve*	*Foreign exchange translation reserve*	*Share premium reserve*	*Total reserves*	*Proposed appropriations*	*Total*	*Non-controlling interest*	*Total owners' equity*
Balance as of 1 January 2016	214,093	-	13,716	46,803	(148)	24,253	(2,693)	12,209	94,140	10,705	318,938	1,064	320,002
Net profit for the year	-	-	-	16,219	-	-	-	-	16,219	-	16,219	(123)	16,096
Net changes in fair value	-	-	-	-	593	(19)	-	-	574	-	574	-	574
Foreign currency re-translation	-	-	-	-	-	-	(15)	-	(15)	-	(15)	11	(4)
Dividend paid	-	-	-	-	-	-	-	-	-	(10,705)	(10,705)	-	(10,705)
Proposed dividend for the year 2016	-	-	-	(10,705)	-	-	-	-	(10,705)	10,705	-	-	-
Purchase of treasury stock	-	(1,646)	-	-	-	-	-	-	-	-	(1,646)	-	(1,646)
Movements in non-controlling interest due to ASBS acquisition	-	-	-	-	-	-	-	-	-	-	-	582	582
Transfer to statutory reserve	-	-	1,622	(1,622)	-	-	-	-	-	-	-	-	-
Balance at 31 December 2016	214,093	(1,646)	15,338	50,695	445	24,234	(2,708)	12,209	100,213	10,705	323,365	1,534	324,899
Balance as of 1 January 2015	214,093	-	12,481	46,497	1,287	22,704	(1,401)	12,209	93,777	10,705	318,575	10,228	328,803
Net profit for the year	-	-	-	12,346	-	-	-	-	12,346	-	12,346	(1,798)	10,548
Net changes in fair value	-	-	-	-	(1,435)	1,549	-	-	114	-	114	-	114
Foreign currency re-translation	-	-	-	-	-	-	(1,292)	-	(1,292)	-	(1,292)	(180)	(1,472)
Dividend paid	-	-	-	-	-	-	-	-	-	(10,705)	(10,705)	-	(10,705)
Proposed dividend for the year 2015	-	-	-	(10,705)	-	-	-	-	(10,705)	10,705	-	-	-
Dividend relating to subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(566)	(566)
Net movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(6,620)	(6,620)
Transfer to statutory reserve	-	-	1,235	(1,235)	-	-	-	-	-	-	-	-	-
Charitable donations	-	-	-	(100)	-	-	-	-	(100)	-	(100)	-	(100)
Balance at 31 December 2015	214,093	-	13,716	46,803	(148)	24,253	(2,693)	12,209	94,140	10,705	318,938	1,064	320,002

The attached notes 1 to 46 form part of these consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and is registered with Ministry of Industry and Commerce ("MOIC") under Commercial Registration Number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and is operating under Islamic principles, and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Bahrain World Trade Center East Tower, King Faisal Highway, Manama 316, Kingdom of Bahrain.

On 30 March 2014, the Bank acquired 100% stake in BMI Bank B.S.C.(c) ("BMI"), a closed shareholding company in the Kingdom of Bahrain, through exchange of shares. During January 2015, the Shari'a Supervisory Board approved BMI Bank to be an Islamic bank effective 1 January 2015. BMI Bank's operations are in compliance with Shari'a principles effective 1 January 2015. The consolidated financial statements of BMI are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as BMI still holds a conventional retail banking license issued by the CBB.

During the year, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS"), (previously "BMIO") an offshore bank in Seychelles as explained in note 3. ASBS operates under an offshore banking license issued by the Central Bank of Seychelles. All legal formalities in relation to the share allotment have been completed and the process of converting ASBS into fully compliant Islamic operations is in progress.

On 29 November 2016, the shareholders of BMI resolved to approve the transfer of business of BMI to the Bank. The merger notice period will end on 11 April 2017. Subsequent to merger date, the Bank will take over all the rights and assume the obligations of BMI at their carrying values.

The Bank and its subsidiaries operate through ten branches in the Kingdom of Bahrain and Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial instruments as principal / agent, managing Shari'a-compliant financial instruments and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank's ordinary shares are listed in the Bahrain Bourse and Dubai Financial Market.

In addition to BMI and ASBS, the other principal subsidiaries are as follows:

		% holding	
Name of entity	*Nature of entity*	*2016*	*2015*
Al Salam Leasing Two Ltd ("ASL II")	Aircraft under lease	76%	76%
Auslog Holding Trust	Investment in real estates	90%	90%

The Bank together with its subsidiaries is referred to as "the Group".

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 15 February 2017.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, fair value through equity and investments in real estates which are held at fair value. These consolidated financial statements incorporate all assets, liabilities and off balance sheet financial instruments held by the Group.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Group, rounded to the nearest thousand [BD '000], except where otherwise indicated.

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

2.1.a Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia' rules and principles as determined by the Sharia' Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law. Matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards ("IFRS").

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 36.

2.1.b Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2016. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity with the objective of obtaining benefits from its operations. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Share of minority stakeholders' interest (non-controlling interest) represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within owners' equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the parent.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgments and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity.

Classification of investments

Management decides upon acquisition of an investment whether it should be classified as fair value through profit or loss, fair value through equity or held-to-maturity.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of goodwill

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by management, extrapolated for five years projection using nominal projected Gross Domestic Product growth rate.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Collective impairment provisions on financial contracts

In addition to specific provisions against individually significant financial contracts, the Group also considers the need for a collective impairment provision against financial contracts which although have not been specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the status, as determined by the Group, of the financial contracts since they were granted (or acquired). The amount of the provision is based on the historical loss pattern for other contracts within each grade and is adjusted to reflect current economic changes.

Impairment losses on financial contracts

The Group reviews its financial contracts on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. During the last interim period of the year, the Group re-assessed its previous estimates and made provisions for financing facilities and other assets.

Impairment of fair value through equity investments

The Group treats fair value through equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of significant or prolonged decline and other objective evidence involves judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the present value calculation factors for unquoted equities.

Valuation of unquoted private equity and real estate investments

Valuation of above investments involves judgment and is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

Going concern

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

Control over special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgments are made about the objectives of the SPEs activities, and Group's exposures to the risk and rewards, as well as its ability to make operational decisions of the SPEs.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES

2.3.1 New standards, interpretations and amendments

These consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015, except for amendments to FAS 27 which have been issued by AAOIFI and are effective 1 January 2016.

Amendments to FAS 27 – Equity method in separate financial statements

These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

The Group has not early adapted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.3.2 Summary of significant accounting policies

a) Financial contracts

Financial contracts consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, Murabaha financing (net of deferred profit), Mudaraba, Musharaka and Ijarah Muntahia Bittamleek. Balances relating to these contracts are stated net of provisions for impairment.

b) Sovereign Sukuk and Corporate Sukuk

These are quoted / unquoted securities and are classified as investments at amortised cost in accordance with FAS 25 issued by AAOIFI.

c) Murabaha receivables

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract, the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favour of the Seller to be binding.

Murabaha receivables are stated at cost, net of deferred profits and / or provision for impairment, if any, and amounts settled.

d) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide a certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Mudaraba financing are recognized at fair value of the Mudaraba assets net of provision for impairment, if any, and Mudaraba capital amounts settled. If the valuation of the Mudaraba assets results in difference between fair value and book value, such difference is recognized as profit or loss to the Group.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

e) Ijarah Muntahia Bittamleek

Ijara Muntahia Bittamleek is an agreement whereby the Group (as Lessor) leases an asset to the customer (as Lessee) after purchasing / acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease against certain rental payments for a specific lease term / periods, payable on fixed or variable rental basis.

The Ijara agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The customer (Lessee) provides the Group (Lessor) with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Group (Lessor) retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the customer (Lessee) under the Ijara agreement, the Group (Lessor) will sell the leased asset to the customer (Lessee) for a nominal value based on sale undertaking given by the Group (Lessor). Leased assets are usually residential properties, commercial real estate or aircrafts.

Depreciation is provided on a systematic basis on all Ijarah Muntahia Bittamleek assets other than land (which is deemed to have an indefinite useful life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

f) Musharaka

Musharaka is used to provide venture capital or project finance. The Group and customer contribute towards the capital of the Musharaka. Usually a special purpose company or a partnership is established as a vehicle to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

Musharaka is stated at cost, less any impairment.

g) Assets and liabilities under conversion

Assets under conversion:

Due from Banks and financial institutions

At amortised cost less any amounts written off and provision for impairment, if any.

Loans and advances

At amortised cost less any amounts written off and provision for impairment, if any.

Non-trading investments

These are classified as fair value through equity investments and are fair valued based on criteria set out in Note 2.3.2 h. Any changes in fair values subsequent to acquisition date are recognized in total comprehensive income (note 30).

Liabilities under conversion:

These are remeasured at amortised cost.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

h) Non-trading investments

These are classified as fair value through equity or fair value through profit or loss.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Acquisition cost relating to investments designated as fair value through profit or loss is charged to consolidated income statement.

Following the initial recognition of investments, the subsequent period-end reporting values are determined as follows:

Fair value through equity investments

After initial recognition, equity investments which are classified as investments at fair value through equity are disclosed as "Fair value through equity investments". These are normally remeasured at fair value, unless the fair value cannot be reliably determined, in which case they are measured at cost less impairment, if any. Fair value changes are reported in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "changes in fair value" within equity, is included in the consolidated income statement.

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

Investments carried at fair value through profit or loss

Investments in this category are designated as such on initial recognition if these investments are evaluated on a fair value basis in accordance with the Group's risk management policy and its investment strategy. These include all private equity investments including those in joint ventures and associates which are not strategic in nature.

Investments at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded as "Fair value changes on Investments" in the consolidated income statement. Gain on sale of these investments is included in "Gain on sale of Investments and Sukuk" in the consolidated income statement. Income earned on these investments is included in "Income from Investments" in the consolidated income statement.

i) Investments in associates

The Group's investments in associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other mode.

Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associate and the Group are identical and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

i) Investments in associates (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in associates.

Foreign exchange translation gains / losses arising out of the above investment in the associate are included in the consolidated statement of changes in equity.

j) Investments in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estate. In accordance with FAS 26, the investment in real estate is initially recognized at cost and subsequently measured based on intention whether the investments in real estate is held-for-use or held for sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model any unrealized gains are recognized directly in owners' equity. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognized in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognized in the consolidated income statement in a previous financial period, the unrealized gains relating to the current financial period is recognized to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell. Investments in real estate carried at fair value shall continue to be measured at fair value.

k) Development properties

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost or net realisable value.

l) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer equipment	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	4 to 5 years
- Leasehold improvements	Over the lease period
- Computer software	10 years

m) Subsidiaries acquired with a view to sell

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "Assets held-for-sale" and "Liabilities relating to assets classified as held-for-sale". Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

n) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognizes the resulting gain or loss, if any, in the consolidated income statement or total comprehensive income as appropriate.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill.

Investments acquired but do not meet the definition of business combination are recorded as financing assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill is determined by assessing the recoverable amount of the cash generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

n) Business combinations and goodwill (continued)

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

o) Impairment and uncollectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, impairment loss, if any, is recognised in the consolidated income statement.

Impairment is determined as follows:

(i) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;

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

(iii) for assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial asset.

For fair value through equity investments, reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

p) Offsetting

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

q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

r) Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees. Entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For Bahraini employees, the Group makes contributions to Social Insurance Organisation calculated as a certain percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

s) Revenue recognition

Murabaha receivables

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a straight-line basis over the deferred period. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments of Murabaha installments are overdue by 90 days, whichever is earlier.

Sukuk

Income on Sukuk is recognized on a time-proportionate basis based on underlying rate of return of the respective type of sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments are overdue by 90 days, whichever is earlier.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

s) Revenue recognition (continued)

Mudaraba
Income on Mudaraba transactions are recognised when the right to receive payment is established or these are declared by the Mudarib, whichever is earlier. In case of losses in Mudaraba, the Group's share of loss is recognised to the extent that such losses are being deducted from its share of the Mudaraba capital.

Dividend
Dividend income is recognised when the Group's right to receive the payment is established.

Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek income is recognised on a time-proportionate basis over the lease term. Income related to non-performing Ijarah Muntahia Bittamleek is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Musharaka
Income on Musharaka is recognized when the right to receive payment is established or on distributions. In case of losses in Musharaka, the Group's share of loss is recognized to the extent that such losses are being deducted from its share of the Musharaka capital.

Fees and commission income
The Group earns fee and commission income from a diverse range of services it provides to its' customers. Fee income can be divided into the following main categories:

Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.

Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time. Other fee income is recognised when services are rendered.

t) Fair value of financial assets
For investments that are traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another instrument, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For assets having fixed or determinable payments, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for instruments with similar terms and risk characteristics.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

u) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "fair value through equity" and investment in associates are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through profit or loss" are directly recognised in the consolidated income statement.

v) Translation of foreign operations

Assets and liabilities of foreign subsidiaries whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting period. Any exchange differences arising on translation are included in "foreign exchange translation reserve" forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated income statement.

w) Repossessed assets

Repossessed assets are assets acquired in settlement of dues. These assets are carried at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'. The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value or fair value less cost to sell for non-financial assets at the repossession date in line with the Group's policy.

x) Trade and settlement date accounting

Purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

y) Derecognition of financial assets

Financial assets are derecognised 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

z) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same source on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

aa) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position.

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

ab) Dividend on ordinary shares
Dividend on ordinary shares is recognised as a liability and deducted from equity when it is approved by the Group's shareholders. Dividend for the year that is approved after the reporting date is included in the equity and is disclosed as an event after the balance sheet date.

ac) Equity of investment account holders
All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Share of income for equity of investment accountholder is calculated based on the income generated by the assets funded by such investment accounts after deducting Mudarib share (as Mudarib and Rabalmal). Operating expenses are charged to shareholders' funds and are not included in the calculation.

The basis applied by the Group in arriving at the equity of investment accountholders' share of income is total investment income less shareholders' income. Portion of the income generated from equity of investment accountholders is transferred to profit equalization reserve, mudarib share and investment risk reserve and the remaining is distributed to the equity of investment accountholders.

ad) Treasury Stock
Own equity instruments that are reacquired, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium in consolidated statement of changes in equity.

ae) Zakah
In accordance with the Articles of Association of the Group, the responsibility to pay Zakah is on the shareholders of the Bank.

af) Cash and cash equivalents
Cash and cash equivalents comprise of cash and balances with the CBB and Murabaha receivables from banks with original maturities of less than 90 days.

ag) Wakala payables
The Group accepts funds from banks and customers under Wakala arrangement in which a return is payable to customers as agreed in the agreement. There is no restriction on the Group for the use of funds received under Wakala agreement.

ah) Jointly financed and self financed
Investments, financing and receivables that are jointly funded by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are funded solely by the Group are classified under "self financed".

The equity of investment accountholders is used to finance the assets of the Group as appropriate.

ai) Investment risk reserve
This is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to compensate future losses for investment account holders.

aj) Earnings prohibited by Shari'a
The Group is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

ak) Profit on Murabaha and Wakala payables to banks and non-banks
Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

3 BUSINESS COMBINATION

The Group had an existing ownership of 50% in BMI Offshore Bank Seychelles Limited ("BMIO") and it was accounted for as an investment in joint venture. Subsequent to the approval of the Bank's Board of Directors, the Group increased its stake in BMIO from 50% to 70% on 27 June 2016. On 27 June 2016, the share allotment was completed and a total of 3,384 fully paid up shares were allotted out of 4,834 shares representing 70% of the share capital which included a portion of shares earlier held by the Group (1,450 shares). Also, BMIO rebranded its name to Al Salam Bank-Seychelles ("ASBS").

The fair value of the assets and liabilities are as follows:

	2016 *BD '000*
ASSETS	
Cash and cash equivalents	**13,816**
Loans and advances	**2,566**
Other assets	**70**
	16,452
LESS: LIABILITIES	
Deposits from customers	**(13,633)**
Other liabilities	**(879)**
	(14,512)
NET ASSETS	**1,940**
GOODWILL ARISING ON ACQUISITION	
Total consideration for acquisition*	**1,358**
Fair value of non-controlling interest at the date of acquisition	**582**
	1,940
Fair value of net asset identified at the date of acquisition	**1,940**
GOODWILL	**-**
NET CASH FLOW ARISING ON ACQUISITION	**8,723**

*This includes a cash consideration of BD 726 thousands.

From the date of acquisition, ASBS has contributed BD 176 thousands to the net profit of the Group. If the business combination had occurred at the beginning of the year, the operating income and net profit of the Group for 2016 would have been BD 424 thousands and BD 180 thousands respectively.

4 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	31 December 2016			
	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
ASSETS				
Cash and balances with banks and Central Bank	-	-	131,990	131,990
Sovereign Sukuk	-	-	358,269	358,269
Murabaha and Wakala receivables from banks	-	-	182,452	182,452
Corporate Sukuk	-	-	28,934	28,934
Murabaha financing	-	-	232,556	232,556
Mudaraba financing	-	-	238,313	238,313
Ijarah Muntahia Bittamleek	-	-	188,485	188,485
Musharaka	-	-	12,304	12,304
Assets under conversion	-	41	34,424	34,465
Non-trading investments	115,403	6,670	-	122,073
Investments in real estate	-	51,863	-	51,863
Development properties	-	-	17,781	17,781
Investment in associates	-	-	10,561	10,561
Other assets	-	1,449	23,987	25,436
Goodwill	-	-	25,971	25,971
Assets held-for-sale	-	19,636	204	19,840
	115,403	79,659	1,486,231	1,681,293

	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	132,032	132,032
Murabaha and Wakala payables to non-banks	-	-	723,439	723,439
Current accounts	-	-	279,609	279,609
Liabilities under conversion	-	-	217	217
Term financing	-	-	91,837	91,837
Other liabilities	-	-	49,043	49,043
Equity of investment accountholders	-	-	68,796	68,796
Liabilities relating to assets classified as held-for-sale	-	-	11,421	11,421
	-	-	1,356,394	1,356,394

4 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

	31 December 2015			
	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
ASSETS				
Cash and balances with banks and Central Bank	-	-	152,572	152,572
Sovereign Sukuk	-	-	350,474	350,474
Murabaha and Wakala receivables from banks	-	-	103,345	103,345
Corporate Sukuk	-	-	50,472	50,472
Murabaha financing	-	-	245,168	245,168
Mudaraba financing	-	-	239,031	239,031
Ijarah Muntahia Bittamleek	-	-	155,217	155,217
Musharaka	-	-	7,154	7,154
Assets under conversion	-	41	31,991	32,032
Non-trading investments	115,008	8,506	-	123,514
Investments in real estates	-	68,786	-	68,786
Development properties	-	-	49,021	49,021
Investment in associates	-	-	9,994	9,994
Other assets	-	2,037	41,855	43,892
Goodwill	-	-	25,971	25,971
	115,008	79,370	1,462,265	1,656,643

	At fair value through profit or loss BD '000	*At fair value through equity BD '000*	*At amortised cost / others BD '000*	*Total BD '000*
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	120,795	120,795
Murabaha and Wakala payables to non-banks	-	-	842,570	842,570
Current accounts	-	-	224,366	224,366
Liabilities under conversion	-	-	2,327	2,327
Term financing	-	-	35,986	35,986
Other liabilities	-	-	48,246	48,246
Equity of investment accountholders	-	-	62,351	62,351
	-	-	1,336,641	1,336,641

5 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2016 *BD '000*	*2015* *BD '000*
Mandatory reserve with Central Bank*	**29,514**	32,240
Cash and other balances with Central Bank	**72,356**	81,448
Balances with other banks	**30,120**	38,884
	131,990	152,572

* This balance is not available for use in the day-to-day operations of the Group.

6 MURABAHA AND WAKALA RECEIVABLES FROM BANKS

Jointly financed assets	**68,796**	62,351
Self financed assets	**113,656**	40,994
	182,452	103,345

At 31 December 2016, deferred profits on Murabaha receivables from banks amounted to BD 60 thousands (2015: BD 12 thousands).

The entire exposure of Murabaha and Wakala receivables from Banks at 31 December 2016 and 31 December 2015 are with financial entities based in GCC countries.

7 CORPORATE SUKUK

	2016 *BD '000*	*2015* *BD '000*
Investment grade	**17,865**	31,833
Non-investment grade	**3,843**	10,330
Un-rated Sukuk	**7,226**	8,309
	28,934	50,472

8 MURABAHA FINANCING

Murabaha financing - gross	**255,326**	254,169
Less:		
Specific provision	**(17,638)**	(4,452)
Collective provision	**(5,132)**	(4,549)
	232,556	245,168

Murabaha financing is reported net of deferred profits of BD 39,249 thousands (2015: BD 50,310 thousands).

9 MUDARABA FINANCING

	2016 *BD '000*	*2015* *BD '000*
Mudaraba financing - gross	248,652	248,354
Less:		
Specific provision	(10,339)	(9,323)
	238,313	239,031

10 IJARAH MUNTAHIA BITTAMLEEK

This represents net investments in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The majority of the lease documentations provide that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all its obligations under the lease agreement.

	2016 *BD '000*	*2015* *BD '000*
Movements in Ijarah Muntahia Bittamleek assets are as follows:		
At 1 January	155,217	141,052
Additions during the year - net	38,731	48,777
Ijarah assets depreciation	(10,568)	(15,939)
Transfer from / (to) other assets*	14,400	(17,729)
Specific provision	(8,795)	(444)
Collective provision	(500)	(500)
At 31 December	188,485	155,217

* On termination of lease, this asset was transferred to other assets. On release, the asset was reclassified as Ijarah.

	2016 *BD '000*	*2015* *BD '000*
The future minimum lease receivable in aggregate are as follows:		
Due within one year	4,304	10,494
Due in one to five years	79,273	62,881
Due after five years	104,908	81,842
	188,485	155,217
Ijarah Muntahia Bittamleek is divided into the following asset classes:		
Land and buildings	181,685	155,217
Aircraft	6,800	-
	188,485	155,217

The accumulated depreciation on Ijarah Muntahia Bittamleek assets amounted to BD 40,403 thousands (2015: BD 31,236 thousands).

11 MOVEMENTS IN PROVISIONS

	2016		
	Financing facilities & other assets	*Fair value through equity investments*	*Total*
	BD '000	*BD '000*	*BD '000*
Balance at the beginning of the year:			
Specific provision	**24,513**	**5,471**	**29,984**
Collective provision	**5,049**	**-**	**5,049**
Transfer			
Specific provision	**125**	**-**	**125**
Collective provision	**(125)**	**-**	**(125)**
Write offs	**(1,248)**	**-**	**(1,248)**
Provision for impairment:			
Charge for the year - specific	**20,338**	**3,153**	**23,491**
Charge for the year - collective	**708**	**-**	**708**
Recoveries during the year	**(2,626)**	**-**	**(2,626)**
	18,420	**3,153**	**21,573**
Balance at the end of the year:			
Specific provision	**41,102**	**8,624**	**49,726**
Collective provision	**5,632**	**-**	**5,632**

	2015		
	Financing facilities & other assets	*Fair value through equity investments*	*Total*
	BD '000	*BD '000*	*BD '000*
Balance at the beginning of the year:			
Specific provision	5,073	4,328	9,401
Collective provision	4,709	-	4,709
Transfer			
Specific provision	160	-	160
Collective provision	(160)	-	(160)
Write off	(1,928)	-	(1,928)
Provision for impairment:			
Charge for the year - specific	21,802	1,143	22,945
Charge for the year - collective	500	-	500
Recoveries during the year	(594)	-	(594)
	21,708	1,143	22,851
Balance at the end of the year:			
Specific provision	24,513	5,471	29,984
Collective provision	5,049	-	5,049

12 ASSETS AND LIABILITIES UNDER CONVERSION

These represent interest bearing non-Shari'a compliant assets and liabilities of BMI and ASBS. These assets and liabilities have been reported as separate line items on the face of the consolidated statement of financial position. The details of the assets and liabilities under conversion are as follows:

	2016	*2015*
	BD '000	***BD '000***
Assets		
Loans and advances*	34,425	31,437
Non-trading investments - debt	24	24
Non-trading investment - fair value through equity **	16	16
Other assets	-	555
	34,465	32,032
Liabilities		
Other liabilities	217	2,327
	217	2,327

* Increase of loans and advances arose from acquisition of a new subsidiary, ASBS Seychelles, during the year (note 3). The Bank carries a specific provision against these loans and advances amounting to BD 4,031 thousands (2015: BD 2,503 thousands).

** The above fair value through equity investment is classified as Level 3 (2015: Level 3) in the fair value hierarchy (note 13). During the year, there were no movements in the fair value of this investment.

13 NON-TRADING INVESTMENTS

Non-trading investments are classified as fair value through equity or fair value through profit or loss.

Fair value hierarchy
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 that have a significant effect on the recorded fair value are observable, either directly or indirectly; or

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

13 NON-TRADING INVESTMENTS (continued)

Fair value hierarchy (continued)
The following table shows an analysis of the financial instruments carried at fair value in the consolidated statement of financial position:

31 December 2016	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Financial assets at fair value through profit or loss	7,755	5,011	102,637	115,403
Financial assets at fair value through equity	3,968	-	2,702	6,670
	11,723	5,011	105,339	122,073

31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Financial assets at fair value through profit or loss	7,646	4,702	102,660	115,008
Financial assets at fair value through equity	4,774	-	3,732	8,506
	12,420	4,702	106,392	123,514

During the year ended 31 December 2016, an amount of BD 1,793 (2015: BD Nil) was transferred from Level 1 to Level 3 fair value measurements.

The movements in fair value of non-trading investments classified in level 3 of the fair value hierarchy are as follows:

	2016	*2015*
	BD '000	*BD '000*
At 1 January	106,392	121,890
Additions during the year	414	-
Fair value changes	(1,109)	(2,426)
Repayments during the year	-	(408)
Disposals during the year	(2,151)	(12,664)
Transfer from level 1 to level 3	1,793	-
At 31 December	105,339	106,392

14 INVESTMENTS IN REAL ESTATE

Land	48,930	49,759
Buildings	2,933	19,027
	51,863	68,786

The movements in fair value of investments in real estate classified in level 3 of the fair value hierarchy are as follows:

	2016	*2015*
	BD '000	*BD '000*
At 1 January	68,786	65,149
Additions during the year	2,732	3,836
Transfer to assets classified as held-for-sale	(19,636)	-
Fair value changes	(19)	(199)
At 31 December	51,863	68,786

15 DEVELOPMENT PROPERTIES

These represent properties acquired and held through investment vehicles exclusively for development in the Kingdom of Bahrain and the United Kingdom. The carrying amounts include land price and related construction costs.

16 INVESTMENT IN ASSOCIATES

The Group has a 14.4% (2015: 14.4%) stake in Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. The Bank has representation on the board of ASBA through which the Bank has a significant influence on ASBA.

The Group has a 20.94% (2015: 20.94%) stake in Gulf African Bank ("GAB"), a private Islamic bank incorporated in Kenya.

The Group's interest in ASBA and GAB is accounted for using the equity method in the consolidated financial statements.

The following table illustrates summarised financial information of Group's investments in ASBA and GAB:

	2016	*2015*
	BD '000	*BD '000*
Associates' statement of financial position:		
Total assets	**280,648**	234,168
Total liabilities	**212,315**	169,231
Net assets	**68,333**	64,937
Total revenue	**20,157**	20,484
Total expenses	**14,772**	16,411
Net profit for the year	**5,385**	4,073
Group's share of associates' net profit	**727**	855

17 OTHER ASSETS

	2016	*2015*
	BD '000	*BD '000*
Assets under conversion (a)		
Non-trading-investments - debt	**236**	236
Non-trading investments - fair value through equity (b)	**1,449**	2,036
	1,685	2,272
Repossessed assets	**4,863**	4,007
Profit receivable	**9,922**	7,995
Premises and equipment	**2,067**	3,910
Prepayments	**1,874**	1,066
Rental receivable on Ijarah Muntahia Bittamleek assets	**449**	685
Other receivables and advances (c)	**4,576**	15,469
Aircraft [net of impairment of BD 7,600 thousands] (d)	**-**	8,488
	25,436	43,892

17 OTHER ASSETS (continued)

(a) These represent non-Shari'a compliant assets resulted from the acquisition of Bahraini Saudi Bank B.S.C. ("ex-BSB").

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy (note 12). Movements in fair value through equity investments are as follows:

	2016	*2015*
	BD '000	***BD '000***
At 1 January	2,036	2,412
Fair value changes	-	188
Repayments during the year	(82)	(69)
Disposals during the year	(505)	(334)
Provision	-	(161)
	1,449	2,036

(c) This includes BD 1,912 thousands (2015: 10,865 thousands) relating to receivable from sale of investments and advances to contractors. It also includes a specific provision against credit card receivables amounting to BD 300 thousands (2015: 192 thousands).

(d) The lease of aircraft was terminated during 2015 and the aircraft was transferred to Ijarah Muntahia Bittamleek during 2016 on release.

18 GOODWILL

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial forecasts approved by management, extrapolated for five years projection using terminal growth rate of 3% and discount rate of 11%.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the CGU to exceed its recoverable amount. The discount rate and earnings are considered as key assumptions. A 0.5% change in the discount rate and a 0.25% change in earnings would impact the carrying value of goodwill by BD 1.5 million and BD6.7 million respectively.

19 ASSETS AND LIABILITIES CLASSIFIED AS HELD-FOR-SALE

The Group is in the process of selling the underling investment properties of Auslog Holding Trust to a third party and accordingly, it has been classified as held-for-sale. The below table illustrates the summarised consolidated financial information of Auslog Holding Trust:

Consolidated statement of financial position	*2016 BD '000*
Assets	
Cash and bank balances	**139**
Investment properties*	**19,636**
Other assets	**65**
Assets classified as held-for-sale	**19,840**
Liabilities	
Term financing*	**11,332**
Other liabilities	**89**
Liabilities relating to assets classified as held-for-sale	**11,421**

* The property classified as held-for-sale is pledged against the term financings of BD 11,332 thousands.

20 TERM FINANCING

	Collateral type	*Facility amount*		*Collateral carring value*	
		2016 BD '000	*2015 BD '000*	*2016 BD '000*	*2015 BD '000*
Term financing 1	Corporate and Sovereign Sukuk	**16,965**	16,965	**38,515**	40,710
Term financing 2	Sovereign Sukuk	**37,700**	-	**72,912**	-
Term financing 3	Sovereign Sukuk	**30,180**	-	**52,918**	-
Term financing 4	Aircraft	**6,992**	7,531	**7,434**	8,488
Term financing 5	Real estate	-	11,490	-	19,027
		91,837	35,986	**171,779**	68,225

21 OTHER LIABILITIES

	2016 BD '000	*2015 BD '000*
Accounts payable and accruals	**34,218**	19,623
Profit payable	**5,917**	5,474
End of service benefits and other employee related accruals	**4,144**	6,387
Dividend payable	**3,988**	3,728
Advances received from customers for sale of properties	**776**	13,034
	49,043	48,246

22 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment accountholders funds are commingled with the Group's funds and used to fund / invest in asset contracts and no priority is granted to any party for the purpose of investments and distribution of profits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested taking into consideration the relevant weightage, if any. The Mudarib's share of profit ranges between 40% and 50%. Operating expenses are charged to shareholders' funds and not included in the calculation.

The balances consists of savings accounts of BD 50,944 thousands (2015: BD 49,093 thousands) and call accounts of BD 17,852 thousands (2015: BD 13,258 thousands).

The average profit rate attributed to the equity of investment accountholders in 2016 was 0.27% (2015: 0.21%).

23 SHARE CAPITAL

	2016 *BD '000*	*2015* *BD '000*
Authorised:		
2,500,000,000 ordinary shares (2015: 2,500,000,000 shares) of BD 0.100 each	**250,000**	250,000
Issued and fully paid: (BD 0.100 per share)		
Number of shares 2,140,930,752 (2015: 2,140,930,752)	**214,093**	214,093

The Group purchased 15,032,732 shares of the Bank (2015: Nil) during the year which are held as treasury stock as of 31 December 2016.

23.1 Proposed appropriation

The Board of Directors in its meeting on 15 February 2016 has resolved to recommend a cash dividend of 5 fils per share or 5% (2015: 5 fils or 5%) of the paid-up capital subject to approval at the forthcoming annual general meeting.

24 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law followed by the approval of the CBB.

25 EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

26 INCOME FROM FINANCING CONTRACTS

	2016 *BD '000*	*2015* *BD '000*
Murabaha financing	**12,870**	11,603
Mudaraba financing	**13,069**	13,104
Ijarah Muntahia Bittamleek*	**10,030**	10,569
Musharaka	**591**	558
Murabaha and Wakala receivables from banks	**1,415**	896
Income from assets under conversion **	**875**	7,800
	38,850	44,530

* Depreciation on Ijarah Muntahia Bitamleek amounted to BD 10,568 thousands (2015: BD 15,939 thousands).

** The Bank's shareholders are advised, but not obliged, to contribute this income to charity at their discretion.

27 GAINS ON SALE OF INVESTMENTS AND SUKUK

	2016 BD '000	*2015 BD '000*
Gain on sale of:		
Development properties*	12,130	2,469
Fair value through profit or loss investments	2,611	265
Sukuk	14	905
Available-for-sale investments	-	3,555
Other investments	398	1,140
	15,153	8,334

* Sales: BD 49,131 thousands (2015: BD 17,203 thousands) and cost: BD 37,001 thousands (2015 14,734 thousands).

28 INCOME FROM INVESTMENTS

	2016 BD '000	*2015 BD '000*
Rental income from investments in real estate	1,947	1,687
Income from assets classified as held-for-sale	-	2,290
Loss from Fair value through profit or loss investments	(128)	(728)
	1,819	3,249

29 FEES, COMMISSION AND OTHER INCOME - NET

	2016 BD '000	*2015 BD '000*
Financing and transaction related fees and commission	5,953	4,336
Fiduciary and other fees	225	387
Other income	1,751	4,461
	7,929	9,184

30 TOTAL COMPREHENSIVE INCOME

	2016 BD '000	*2015 BD '000*
Net profit for the year	16,096	10,548
Items to be reclassified to consolidated income statement in subsequent periods:		
Unrealized gain reclassified to consolidated income statement on disposal of fair value through equity investments	(82)	(965)
Unrealised gain / (loss) on fair value through equity investments	675	(470)
Changes in fair value of investments in real estate	(19)	1,549
Foreign currency re-translation	(4)	(1,472)
Other comprehensive income / (loss) for the year	570	(1,358)
Total comprehensive income for the year	16,666	9,190
Attributable to:		
Equity holders of the Bank	16,778	11,168
Non-controlling interest	(112)	(1,978)
	16,666	9,190

31 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were approved by the Board of Directors. All the loans and advances to related parties are performing and are free of any provision for possible credit losses.

The balances with related parties at 31 December 2016 were as follows:

	2016				
	Associates and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Assets:					
Cash and balances with banks and Central Bank	-	181	-	-	181
Murabaha and Wakala receivables from banks	-	6,786	-	-	6,786
Murabaha financing	25,172	-	-	115	25,287
Mudaraba financing	1,885	-	-	-	1,885
Ijarah Muntahia Bittamleek	-	-	143	226	369
Musharaka financing	-	-	45	-	45
Other assets	947	2	61	24	1,034
Liabilities and equity of investment accountholders:					
Wakala payables to non-banks	4,235	10,505	48	1,134	15,922
Current accounts	343	9	793	132	1,277
Equity of investment accountholders	-	-	825	135	960
Other liabilities	60	-	-	5	65
Contingent liabilities and commitments	743	-	-	-	743

	2015				
	Associates, and joint ventures BD '000	*Major shareholders BD '000*	*Directors and related entities BD '000*	*Senior management BD '000*	*Total BD '000*
Assets:					
Cash and balances with banks and Central Bank	-	-	-	-	-
Murabaha and Wakala receivables from banks	-	36	-	-	36
Murabaha financing	32,799	-	-	36	32,835
Mudaraba financing	1,885	-	-	-	1,885
Ijarah Muntahia Bittamleek	-	-	-	187	187
Musharaka financing	-	-	55	-	55
Other assets	1,924	-	3,660	4	5,588
Liabilities and equity of investment accountholders:					
Murabaha and Wakala due to banks	1,508	-	-	-	1,508
Wakala payables to non-banks	2,235	23,400	637	653	26,925
Current accounts	2,216	4,010	163	50	6,439
Equity of investment accountholders	-	-	153	64	217
Other liabilities	911	191	3	3	1,108
Contingent liabilities and commitments	743	-	-	-	743

31 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the consolidated income statement are as follows:

	2016				
	Associates and joint ventures BD '000	*Major shareholders* BD '000	*Directors and related entities* BD '000	*Senior management* BD '000	*Total* BD '000
Income:					
Income from financing contracts	-	19	8	6	33
Other income	-	-	-	-	-
Gain on sale of investments and Sukuk	-	-	-	-	-
Expenses:					
Profit on Murabaha and Wakala payables to banks	-	-	-	-	-
Profit paid on Wakala from non-banks	27	380	1	22	430
Share of profits on equity of investment account holders	-	-	3	-	3
Other operating expenses	-	-	593	-	593
Provision for impairment	8,947	-	-	-	8,947

	2015				
	Associates and joint ventures BD '000	*Major shareholders* BD '000	*Directors and related entities* BD '000	*Senior management* BD '000	*Total* BD '000
Income:					
Income from financing contracts	54	-	4	5	63
Other income	80	-	-	1	81
Gain on sale of investments and Sukuk	217	-	1,259	-	1,476
Expenses:					
Profit on Murabaha and Wakala payables to banks	3	-	-	-	3
Profit paid on Wakala from non-banks	144	2,720	13	16	2,893
Share of profits on equity of investment account holders	-	-	2	-	2
Other operating expenses	6	-	432	-	438
Provision for impairment	9,425	-	-	-	9,425

Directors' remuneration for 2016 amounted to BD 389 thousands (2015: BD 365 thousands).

Compensation of key management personnel, consisting of short-term benefits and non-cash remuneration, for the year was BD 2,902 thousands (2015: BD 3,142 thousands).

32 CONTINGENT LIABILITIES AND COMMITMENTS

	2016 *BD '000*	*2015* *BD '000*
Contingent liabilities on behalf of customers		
Guarantees	**24,993**	28,144
Letters of credit	**20,788**	9,594
Acceptances	**3,607**	2,275
	49,388	40,013
Irrevocable unutilised commitments		
Unutilised financing commitments	**114,491**	79,465
Unutilised non-funded commitments	**23,308**	37,023
Commitments towards development cost	**2,951**	6,981
	140,750	123,469
Commitment relating to purchase of investment	**-**	4,182
Capital expenditure commitments		
Estimated capital expenditure contracted for at the consolidated statement of financial position date but not provided for	**-**	29
	190,138	167,693
Forward foreign exchange contracts - notional amount	**20,280**	14,448

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee
The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	2016 *BD '000*	*2015* *BD '000*
Within 1 year	**1,168**	1,328
After one year but not more than five years	**2,360**	2,576
	3,528	3,904

33 RISK MANAGEMENT

33.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk, and market risk. It is also subject to early settlement risk and operational risks.

The Group's risk function is independent of lines of business and the Group Chief Risk Officer reports to the Group CEO with access to the Board Audit and Risk Committee.

The independent risk control process does not include business risks such as changes in the environment, technology and industry, they are monitored through the Group's strategic planning process.

33 RISK MANAGEMENT (continued)

33.1 Introduction (continued)

Risk
The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors
The Board of Directors is responsible for setting the overall risk management framework and appetite encompassing the risk strategies and policies.

Executive Committee
The Executive Committee has the responsibility to review and recommend to the Board for approval the overall risk process and policies within the Bank.

Shari'a Supervisory Board
The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

Risk Committee
Credit / Risk committee recommends the risk policy and framework to the Board. Its primary role is selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive management. In addition, individual credit transaction approval and monitoring is an integral part of the responsibilities of Risk Committee.

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

Audit Committee
The Audit and Risk Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, reviewing and monitoring the overal risk framework and profile of the Group as well as its adherence to stipulated policies and limits, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The Audit and Risk Committee reviews Group's accounting and financial practices, risk management reports, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group's external and internal auditors.

Internal Audit
Risk management processes throughout the Group are audited by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

33 RISK MANAGEMENT (continued)

33.1 Introduction (continued)

Risk measurement and reporting systems

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's risk management department is also responsible for identifying risk characteristics inherent in new and existing products, activities and setting exposure limits to mitigate these risks.

Monitoring and controlling risks is primarily performed based on limits established by the Group. 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, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across respective risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee and Asset Liability Committee as may be applicable. The reports includes aggregate credit quality and exposures, market risk exposures, operational risk metrics, limit exceptions, liquidity ratios, stress testing, and risk profile changes. A detailed report is produced on a quarterly basis with simplified reports produced on a monthly baiss. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess the risks of the Group.

For all levels throughout the Group, specifically 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 daily briefing is given to all relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

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

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

33.2 Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The table below shows the maximum exposure (excluding sovereign exposures) to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of provision, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2016 BD '000	*Gross maximum exposure 2015 BD '000*
ASSETS		
Balances with other banks	**30,120**	38,884
Murabaha receivables from banks	**182,452**	103,345
Corporate Sukuk	**28,934**	50,472
Murabaha and Mudaraba financing	**409,816**	389,628
Ijarah Muntahia Bittamleek	**187,356**	154,501
Musharaka financing	**12,305**	7,154
Assets under conversion	**34,465**	31,355
Other assets	**9,918**	23,955
Total	**895,366**	799,294
Contingent liabilities and commitments	**156,720**	167,693
Total credit risk exposure	**1,052,086**	966,987

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Type of credit risk
Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka financing, Sukuk and Ijarah Muntahia Bittamleek contracts. Murabaha financing contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabamal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit. The various financial instruments are:

Murabaha financing
The Group arranges Murabaha transactions by buying an asset (which represents the object of the Murabaha) and then selling this asset to customers (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is paid in instalments over the agreed period.

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

Ijarah Muntahia Bittamleek

The legal title of the leased asset under Ijarah Muntahia Bittamleek passes to the lessee at the end of the Ijarah term, provided that all Ijarah instalments are settled.

a) The credit quality of balances with banks and Murabaha receivables from banks subject to credit risk is as follows:

	31 December 2016				
	Neither past due nor impaired			*Past due or individually impaired*	*Total*
	'A' Rated BD '000	*'B' Rated BD '000*	*Unrated BD '000*	*BD '000*	*BD '000*
Balances with banks	**24,012**	**4,298**	**1,810**	**-**	**30,120**
Murabaha and Wakala receivables from banks	**102,166**	**55,856**	**24,430**	**-**	**182,452**
	126,178	**60,154**	**26,240**	**-**	**212,572**

	31 December 2015				
	Neither past due nor impaired			*Past due or individually impaired*	*Total*
	'A' Rated BD '000	*'B' Rated BD '000*	*Unrated BD '000*	*BD '000*	*BD '000*
Balances with banks	34,999	2,326	1,559	-	38,884
Murabaha and Wakala receivables from banks	46,016	27,659	29,670	-	103,345
	81,015	29,985	31,229	-	142,229

The ratings referred to in the above tables are by one or more of the four international rating agencies (Standards & Poors, Moody's, Fitch and Capital Intelligence). The unrated exposures are with various high quality Middle East financial institutions, which are not rated by a credit rating agency. In the opinion of the management, these are equivalent to "A" rated banks or very secured and well managed institutions.

b) The credit quality of Corporate Sukuk, financing facilities and other assets subject to credit risk, based on internal credit ratings, is as follows:

	31 December 2016				
	Neither past due nor impaired		*Past due*		
	Satisfactory BD '000	*Watch List BD '000*	*Not impaired BD '000*	*Impaired BD '000*	*Total BD '000*
Corporate Sukuk	**28,934**	**-**	**-**	**-**	**28,934**
Murabaha and Mudaraba financing	**276,912**	**140**	**69,633**	**63,131**	**409,816**
Ijarah Muntahia Bittamleek	**155,919**	**2,126**	**20,855**	**8,456**	**187,356**
Musharaka financing	**7,213**	**-**	**4,941**	**151**	**12,305**
Assets under conversion	**13,101**	**-**	**1,093**	**20,271**	**34,465**
Other assets	**9,128**	**-**	**778**	**12**	**9,918**
	491,207	**2,266**	**97,300**	**92,021**	**682,794**

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

	31 December 2015				
	Neither past due nor impaired		*Past due*		
	Satisfactory BD '000	*Watch List BD '000*	*Not impaired BD '000*	*Impaired BD '000*	*Total BD '000*
Corporate Sukuk	49,829	-	-	643	50,472
Murabaha and Mudaraba financing	282,768	11,254	56,489	39,117	389,628
Ijarah Muntahia Bittamleek	132,170	5,409	14,282	2,640	154,501
Musharaka financing	3,791	435	2,928	-	7,154
Assets under conversion	1,004	-	15,438	14,913	31,355
Other assets	22,641	104	1,203	7	23,955
	492,203	17,202	90,340	57,320	657,065

In addition to the above, the financing facilities provided to the Government of Bahrain, its related entities and GCC sovereign entities amounts to BD 62,184 thousands (2015: BD 95,964 thousands).

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

c) Aging analysis of past due but not impaired financing facilities are illustrated as follows:

	31 December 2016			
	0-30 days BD '000	*31-90 days BD '000*	*> 90 days BD '000*	*Total BD '000*
Murabaha and Mudaraba financing	**37,857**	**31,776**	**-**	**69,633**
Ijarah Muntahia Bittamleek	**17,204**	**3,651**	**-**	**20,855**
Musharaka financing	**4,538**	**403**	**-**	**4,941**
Assets under conversion	**370**	**723**	**-**	**1,093**
Other assets	**407**	**371**	**-**	**778**
	60,376	**36,924**	**-**	**97,300**

	31 December 2015			
	0-30 days BD '000	*31-90 days BD '000*	*> 90 days BD '000*	*Total BD '000*
Murabaha and Mudaraba financing	19,447	17,836	19,206	56,489
Ijarah Muntahia Bittamleek	4,600	7,080	2,602	14,282
Musharaka financing	148	2,182	598	2,928
Assets under conversion	1,147	638	13,653	15,438
Other assets	545	4	654	1,203
	25,887	27,740	36,713	90,340

All the past due but not impaired financing facilities are covered by collateral of BD 88,455 thousands (2015: BD 186,280 thousands). The utilisation of the collateral will be on customer by customer basis and is limited to the customers' total exposure.

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in Note 32 except capital commitments.

33 RISK MANAGEMENT (continued)

33.2 Credit risk (continued)

During the year BD 17,803 thousands (2015: BD 57,899 thousands) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

At 31 December 2016, the amount of credit exposure in excess of 15% of the Group's regulatory capital to individual counterparties was BD Nil (2015: BD Nil).

33.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgements can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2016, legal suits amounting to BD 4,925 thousands (2015: BD 6,285 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group also has filed counter cases against these parties.

34 CONCENTRATIONS

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

The distribution of assets, liabilities and equity of investment account holders by geographic region and industry sector was as follows:

	Assets	*Liabilities, equity of investment account holders and owners' equity*	*Contingent liabilities and Commitments*	*Assets*	*Liabilities, equity of investment account holders and owners' equity*	*Contingent liabilities and Commitments*
	2016	*2016*	*2016*	*2015*	*2015*	*2015*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Geographic region						
GCC	1,492,594	1,192,331	188,540	1,470,200	1,266,869	172,134
Arab World	38,355	50,222	13,377	20,031	26,722	23
Europe	49,583	95,056	427	67,108	21,067	694
Asia Pacific	52,459	893	11,602	77,351	15,643	13,145
North America	9,535	314	-	10,923	1,302	-
Others	38,767	17,578	-	11,030	5,038	49
	1,681,293	1,356,394	213,946	1,656,643	1,336,641	186,045
Owners' equity	-	324,899	-	-	320,002	-
	1,681,293	1,681,293	213,946	1,656,643	1,656,643	186,045

34 CONCENTRATIONS (continued)

	Assets	Liabilities, equity of investment account holders and owners' equity	Contingent liabilities and Commitments	Assets	Liabilities, equity of investment account holders and owners' equity	Contingent liabilities and Commitments
	2016	2016	2016	2015	2015	2015
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Industry sector						
Government and public sector	525,865	148,798	33,417	537,925	107,008	28,168
Banks and financial institutions	362,504	310,634	40,390	303,063	273,763	19,359
Real estate	382,136	192,038	72,566	407,449	210,969	48,089
Trading and manufacturing	100,405	64,371	23,395	122,415	103,745	48,678
Aviation	10,245	14,918	-	11,171	37,704	-
Individuals	200,220	461,909	8,412	179,001	499,008	1,456
Others	99,918	163,726	35,766	95,619	104,444	40,295
	1,681,293	1,356,394	213,946	1,656,643	1,336,641	186,045
Owners' equity	-	324,899	-	-	320,002	-
	1,681,293	1,681,293	213,946	1,656,643	1,656,643	186,045

35 MARKET RISK

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Risk Committee as well as Asset and Liability Committee (ALCO) of the Group.

35.1 Equity price risk

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the overall investment exposure of the Bank. This is monitored on an ongoing basis by the Group's Investment Committee and Risk Management.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and fair value through equity investments) solely due to reasonably possible changes in equity prices, is as follows:

	2016			
	10% increase		10% decrease	
	Effect on net profit BD '000	Effect on equity BD '000	Effect on net profit BD '000	Effect on equity BD '000
Quoted:				
Bahrain	-	166	(166)	-
Saudi	776	-	(776)	-
Singapore	-	231	(231)	-
Unquoted	10,765	270	(10,765)	(270)

35 MARKET RISK (continued)

35.1 Equity price risk (continued)

	2015			
	10% increase		10% decrease	
	Effect on net profit BD '000	*Effect on equity BD '000*	*Effect on net profit BD '000*	*Effect on equity BD '000*
Quoted:				
Bahrain	-	193	(193)	-
Saudi	585	-	(585)	-
Singapore	-	284	(284)	-
Frankfurt	179	-	(179)	-
Unquoted	10,736	373	(10,736)	(373)

35.2 Profit return risk

The Group has exposure to fluctuations in the profit rates on its assets and liabilities. The Group recognises income on certain financial assets on a time-apportioned basis. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Risk Committee as well as Asset Liability Committee.

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2016			
	Change in rate %	*Effect on net profit BD '000*	*Change in rate %*	*Effect on net profit BD '000*
Bahraini dinars	**0.10**	**380**	**0.10**	**(380)**
US dollars	**0.10**	**193**	**0.10**	**(193)**

	2015			
	Change in rate %	*Effect on net profit BD '000*	*Change in rate %*	*Effect on net profit BD '000*
Bahraini dinars	0.10	(237)	(0.10)	237
US dollars	0.10	(191)	(0.10)	191

35.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Risk Committee as well as Asset Liability Committee to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2016 and 2015.

36 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Risk Committee as well as Asset Liability Committee of the Group.

The table below summarises the expected maturity profile of the Group's assets and liabilities as at 31 December 2016 and 2015:

	31 December 2016				
	Up to 3 months BD '000	*3 months to 1 year* BD '000	*1 to 5 years* BD '000	*Over 5 years* BD '000	*Total* BD '000
ASSETS					
Cash and balances with banks and the Central Bank	120,623	4,800	6,567	-	131,990
Sovereign Sukuk	3,091	23,371	140,624	191,183	358,269
Murabaha & Wakala receivables from banks	182,452	-	-	-	182,452
Corporate Sukuk	8,731	3,910	16,293	-	28,934
Murabaha and Mudaraba financing	100,707	120,305	108,870	140,987	470,869
Ijarah Muntahia Bittamleek	2,689	1,615	79,273	104,908	188,485
Musharaka financing	66	-	8,811	3,427	12,304
Assets under conversion	-	-	27,688	6,777	34,465
Non-trading investments	1,947	-	120,126	-	122,073
Investments in real estates	-	-	48,930	2,933	51,863
Development properties	2,943	-	14,838	-	17,781
Investment in associates	-	-	7,531	3,030	10,561
Other assets	13,066	1,182	6,267	4,921	25,436
Goodwill	-	-	-	25,971	25,971
Assets held-for-sale	19,840	-	-	-	19,840
	456,155	155,183	585,818	484,137	1,681,293
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Murabaha and Wakala payables to banks	46,058	17,206	68,768	-	132,032
Wakala payables to non-banks	52,871	101,250	569,318	-	723,439
Current accounts	279,609	-	-	-	279,609
Liabilities under conversion	217	-	-	-	217
Term financing	48,889	-	33,744	9,204	91,837
Other liabilities	34,761	1,877	12,405	-	49,043
Liabilities relating to assets classified as held-for-sale	11,421	-	-	-	11,421
Equity of investment accountholders	40,286	8,146	20,364	-	68,796
	514,112	128,479	704,599	9,204	1,356,394

36 LIQUIDITY RISK (continued)

	31 December 2015				
	Up to 3 months BD '000	*3 months to 1 year* BD '000	*1 to 5 years* BD '000	*Over 5 years* BD '000	*Total* BD '000
ASSETS					
Cash and balances with banks and Central Bank	135,505	11,215	5,852	-	152,572
Sovereign Sukuk	721	60,805	91,176	197,772	350,474
Murabaha & Wakala receivables from banks	103,345	-	-	-	103,345
Corporate Sukuk	675	16,566	23,553	9,678	50,472
Murabaha and Mudaraba financing	45,936	139,257	209,579	89,427	484,199
Ijarah Muntahia Bittamleek	4,272	6,222	62,881	81,842	155,217
Musharaka financing	1,951	819	2,793	1,591	7,154
Assets under conversion	-	-	22,163	9,869	32,032
Non-trading investments	-	-	123,157	357	123,514
Investments in real estates	-	-	68,786	-	68,786
Development properties	-	-	49,021	-	49,021
Investment in associates	-	-	7,525	2,469	9,994
Other assets	34,590	2,144	3,056	4,102	43,892
Goodwill	-	-	-	25,971	25,971
	326,995	237,028	669,542	423,078	1,656,643
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Murabaha and Wakala payables to banks	91,067	13,437	16,291	-	120,795
Wakala payables to non-banks	-	84,257	758,313	-	842,570
Current accounts	224,366	-	-	-	224,366
Liabilities under conversion	2,327	-	-	-	2,327
Term financing	-	7,531	28,455	-	35,986
Other liabilities	19,995	20,329	7,922	-	48,246
Equity of investment accountholders	18,706	12,470	31,175	-	62,351
	356,461	138,024	842,156	-	1,336,641

36 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted payment obligation:

	31 December 2016					
	On demand BD '000	*Up to 3 months BD '000*	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha & Wakala payables to banks	-	124,635	7,397	-	-	132,032
Wakala payables to non-banks	-	313,518	328,513	81,408	-	723,439
Current accounts	279,609	-	-	-	-	279,609
Equity of investment accountholders	28,067	40,729	-	-	-	68,796
Liabilities under conversion	217	-	-	-	-	217
Term financing	-	48,889	-	33,744	9,204	91,837
Unutilised commitments	8,999	12,122	46,577	44,729	25,372	137,799
Contingent liabilities	35,318	24,531	5,980	10,318	-	76,147
Other financial liabilities	-	7,985	6,246	528	-	14,759
Profit on financial liabilities	-	761	5,015	6,329	-	12,105
Liabilities relating to assets classified as held-for-sale	-	11,421	-	-	-	11,421
	352,210	584,591	399,727	177,056	34,576	1,548,160

	31 December 2015					
	On demand BD '000	*Up to 3 months BD '000*	*3 months to 1 year BD '000*	*1 to 5 years BD '000*	*Over 5 years BD '000*	*Total BD '000*
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha & Wakala payables to banks	-	112,366	8,429	-	-	120,795
Wakala payables to non-banks	-	384,898	427,200	30,472	-	842,570
Current accounts	224,366	-	-	-	-	224,366
Equity of investment accountholders	27,986	34,365	-	-	-	62,351
Liabilities under conversion	-	-	2,327	-	-	2,327
Term financing	-	-	7,531	28,455	-	35,986
Unutilised commitments	9,319	23,370	67,062	9,063	7,674	116,488
Contingent liabilities	40,013	7,300	1,037	6,759	-	55,109
Other financial liabilities	-	6,245	12,438	195	-	18,878
Profit on financial liabilities	-	1,037	5,986	3,063	-	10,086
	301,684	569,581	532,010	78,007	7,674	1,488,956

37 SEGMENT INFORMATION

Primary segment information
For management purposes, the Group is organised into four major business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking and private banking and wealth management.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
Capital	Manages the undeployed capital of the Group by investing it in high quality financial instruments, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

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

Segment information is disclosed as follows:

	31 December 2016				
	Banking ***BD '000***	***Treasury*** ***BD '000***	***Investments*** ***BD '000***	***Capital*** ***BD '000***	***Total*** ***BD '000***
Operating income	**27,951**	**13,369**	**20,319**	**1,361**	**63,000**
Segment result	**(10,062)**	**11,957**	**14,723**	**(522)**	**16,096**
Segment assets	**706,572**	**678,896**	**236,338**	**59,487**	**1,681,293**
Segment liabilities, and equity	**1,021,629**	**317,079**	**50,312**	**292,273**	**1,681,293**

Goodwill resulting from BMI acquisition is allocated to banking segment.

	31 December 2015				
	Banking *BD '000*	*Treasury* *BD '000*	*Investments* *BD '000*	*Capital* *BD '000*	*Total* *BD '000*
Operating income	32,493	9,623	7,487	9,295	58,898
Segment result	8,998	6,532	(4,458)	(524)	10,548
Segment assets	655,372	618,757	219,074	163,440	1,656,643
Segment liabilities, and equity	1,108,457	177,678	39,565	330,943	1,656,643

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information
The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

38 FIDUCIARY ASSETS

Funds under management at the year-end amounted to BD 88,209 thousands (2015: BD 80,891 thousands). These assets are held in a fudiciary capicity, measured at cost and are not included in the consolidated statement of financial position.

39 SHARI'A SUPERVISORY BOARD

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

40 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of Sovereign Sukuk is BD 355,767 thousands having a carrying value of BD 358,269 thousands and the fair value of Corporate Sukuk is BD 28,888 thousands having a carrying value of BD 28,934 thousands. The estimated fair values of other financial instruments are not materially different to their carrying values as of 31 December 2016 and 2015.

41 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group received Sharia' prohibited income totalling BD 412 thousands (2015: BD 189 thousands). These include, income earned from the conventional financing and investments due to acquiring BMI and BSB, penalty charges from customers and interest on current account balances held with correspondent banks. These funds were allocated to charitable contributions after deducting recovery expenses of these funds.

42 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 267 thousands (2015: BD 320 thousands) on account of charitable donations.

43 ZAKAH

Pursuant to a resolution of the shareholders in an EGM held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognized in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2016 has been determined by the Shari'a supervisory board as 2.5 fils (2015: 3.9 fils) per share.

44 CAPITAL ADEQUACY

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

44 CAPITAL ADEQUACY (continued)

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

	2016	*2015*
	BD '000	***BD '000***
Common equity Tier 1 capital	**273,576**	268,714
Additional Tier 1 capital	**5**	-
Tier 2 capital	**29,873**	32,240
Total capital	**303,454**	300,954
Credit risk-weighted exposures	**1,314,315**	1,381,565
Market risk-weighted exposures	**8,053**	19,606
Operational risk-weighted exposures	**85,710**	99,967
Total risk-weighted assets	**1,408,078**	1,501,138
Investment risk reserve	**2**	-
Total Adjusted Risk Weighted Exposures	**1,408,076**	1,501,138
Total capital ratio	**21.55%**	20.05%
Minimum requirement	**12.5%**	12.5%

45 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Group are covered by deposit protection schemes established by the Central Bank of Bahrain (CBB). Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A periodic contribution as mandated by the CBB is paid by the Group under this scheme.

46 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the current year presentation. Such reclassifications did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.