

ITHMAAR HOLDING B.S.C.
(Formerly Ithmaar Bank B.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Consolidated financial statements for the year ended 31 December 2017

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Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) for the Financial Year from 1 January 2017 until 31 December 2017, corresponding to the Period from 3 Rabi Al-Akher 1438 H until 13 Rabi Al-Akher 1439 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Holding B.S.C. ("Ithmaar") performed the following during the financial year from 1 January 2017 until 31 December 2017:

1. Issued fatwas and Sharia resolutions related to Ithmaar's activities and followed its execution through Ithmaar's internal Sharia compliance Department while also guiding different departments towards implementing compliant transactions.
2. Studied different mechanisms of financing, investment and mudaraba accounts and prepared its documents with the concerned departments that develop and market products.
3. Examined the books, records and transactions through the Internal Sharia Compliance Department and auditing some of their samples as per established sharia auditing standards.
4. Examined sources of income and expenditures through reviewing the consolidated statement of financial position, income statement and Ithmaar's overall banking activities.
5. Examined and approved Sharia reports which are published by the Internal Sharia Compliance Department.

We have reviewed the principles and contracts relating to transactions and products that has been executed by Ithmaar during the period from 1 January 2017 to 31 December 2017. We have also conducted the required inspection to provide our opinion on whether Ithmaar had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us.

The management is responsible for ensuring that Ithmaar operates in accordance with the provisions and principles of Islamic Sharia. Our responsibility is to express an independent opinion based on our observation of Ithmaar's operations, and prepare a report to this effect.

In view of the above the Sharia Supervisory Board hereby resolves as follows:

i: With regard to Ithmaar's business in general:

- a. Ithmaar's overall operations and activities were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.
- b. Income generated from non-sharia compliant investments of the conventional assets transferred to the company when Shamil Bank merged with Ithmaar Bank in 2010, these have been identified, disclosed and published to the shareholders in Note 42 of the Consolidated Financial Statements, taking into consideration that the Bank is still in the process of correcting the status of these investment according to the Sharia Board instructions.
- c. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.



Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Report of the Sharia Supervisory Board on the activities of Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) for the Financial Year from 1 January 2017 until 31 December 2017, corresponding to the Period from 3 Rabi Al-Akher 1438 H until 13 Rabi Al-Akher 1439 H.

ii: Conventional assets transferred to Ithmaar Holding company:

Ithmaar has been restructured into a holding company, and Ithmaar Holding retains 100 percent ownership of all assets formerly owned by Ithmaar Bank B.S.C., through two wholly-owned subsidiaries, Ithmaar Bank B.S.C (closed) (Ithmaar Bank), an Islamic retail bank subsidiary which holds the core retail banking business (for commercial operations in Bahrain and Pakistan), and IB Capital B.S.C. (closed), an investment subsidiary, which holds investments and other non-core assets, and will take appropriate actions for these assets either through disposal or converting these assets to Islamic alternatives. The Sharia Supervisory Board sees this as a positive step towards conversion of conventional assets.

To ensure compliance with its Fatwa and directions, the Sharia Supervisory Board has reviewed the income statement of Ithmaar for the year ended 31 December 2017 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities in Note 42. Accordingly, the Sharia Supervisory Board guides the shareholders of Ithmaar to dispose of impermissible earnings which has been calculated, in the current year's financial statements, at 63 US cents per share.

We pray to Almighty Allah to grant success to Ithmaar and whom are responsible and grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

His Eminence Shaikh Abdulla Al Manee'a

Chairman

His Eminence Shaikh Dr.

Nizam Yacooby

Member

His Eminence Shaikh

Mohsin Al-Asfoor

Member

His Eminence Shaikh Dr.

Osama Bahar

Member

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Directors' Report for the year ended 31 December 2017

The Directors submit their report dealing with the activities of Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) ("Ithmaar") for the year ended 31 December 2017, together with the audited consolidated financial statements of Ithmaar and its subsidiaries (collectively the "Group") for the year then ended.

Principal activities

Ithmaar Holding B.S.C was established after shareholders of formerly named Ithmaar Bank B.S.C approved in March 2016 plans to significantly transform the Group's operations. The former Ithmaar Bank B.S.C held an Islamic retail banking license. The plans, which were proposed by Ithmaar Bank Board of Directors and approved by shareholders at an Extraordinary General Meeting dated 28 March 2016, involved Ithmaar Holding retains 100 percent ownership of all assets previously owned by Ithmaar Bank B.S.C., through its two subsidiaries, Ithmaar Bank B.S.C (C) (Ithmaar Bank) an Islamic retail bank subsidiary which holds the core retail banking business, and IB Capital B.S.C (C), an investment subsidiary which holds investments and other non-core assets. The two subsidiaries are licensed and regulated by the CBB. The plans received all necessary approvals and were implemented on 2 January 2017.

The principal activities of the Group are a wide range of financial services, including retail, commercial, asset management, private banking, takaful, leasing and real estate development.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2017, together with the consolidated results for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net loss of \$84.7 million for 2017 attributable to the equity shareholders of the Group, as compared to a net profit of \$3.3 million for 2016. Total assets at 31 December 2017 amounted to \$8,611.4 million (31 December 2016: \$8,341.3 million).

Directors

The following served as Directors of Ithmaar during the year ended 31 December 2017:

HRH Prince Amr Mohamed Al Faisal (Chairman)
Tunku Yaacob Khyra
Mr. Abdel Hamid Abo Moussa
Sheikh Zamil Abdullah Al-Zamil
Mr. Nabeel Khalid Kanoo
Mr. Mohammed Bucheerei
Mr. Abdullellah Ebrahim Al-Qassimi
Mr. Omar Abdi Ali
Dr. Amani Khaled Bouresli
Mr. Abdulshakoor Hussain Tahlak
Mr. Mohammed Elkhareiji (Appointed with effect from 16 October 2017)
Mr. Khalid Abdulla-Janahi (Resigned with effect from 11 June 2017)
Sheikha Hissah Bint Saad Al-Sabah (Resigned with effect from 20 August 2017)

Directors' sitting fees

Directors' sitting fees for 2017 amounted to \$408,000 (2016: \$423,500).

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Directors' Report for the year ended 31 December 2017 (continued)

Interests of Directors

The interests of the Directors in the shares of Ithmaar are disclosed below:

Name	Number of Shares	
	31 December 2017	31 December 2016
HRH Prince Amr Mohamed Al Faisal	106,100	106,100
Tunku Yaacob Khyra	106,100	106,100
Mr. Abdel Hamid Abo Moussa	106,100	106,100
Sheikh Zamil Abdullah Al-Zamil	205,000	205,000
Mr. Nabeel Khalid Kanoo	106,100	106,100
Mr. Mohammed Bucheerei	105,600	105,600
Mr. Abdullellah Ebrahim Al-Qassimi	106,100	106,100
Mr. Omar Abdi Ali	-	-
Dr. Amani Khaled Bouresli	-	-
Mr. Abdulshakoor Hussain Tahlak	-	-
Mr. Mohammed Elkhareiji (Appointed with effect from 16 October 2017)	-	-
Mr. Khalid Abdulla-Janahi (Resigned with effect from 11 June 2017)	Not applicable	20,749,693
Sheikha Hissah Bint Saad Al-Sabah (Resigned with effect from 20 August 2017)	Not applicable	106,100

Dividend

No dividend has been proposed for 2017 (2016: Nil).

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of Ithmaar for the year ending 31 December 2018.

By order of the Board of Directors



HRH Prince Amr Mohamed Al Faisal
Chairman

26 February 2018



Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Independent Auditor's Report to the Shareholders of Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.) ("Ithmaar") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2017 and the related consolidated statements of income, changes in owners' equity, cash flows, and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Sharia rules and principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement 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 financial position of the Group as at 31 December 2017 and the results of its operations, its cash flows, changes in owners' equity and changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.



Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Independent Auditor's Report to the Shareholders of Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.) (continued)

Report on regulatory requirements and other matters

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

- (i) Ithmaar has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- (ii) the financial information contained in the directors' report is consistent with the consolidated financial statements;
- (iii) 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, rules and procedures of the Bahrain Bourse or the terms of Ithmaar's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of Ithmaar or on its financial position; and
- (iv) satisfactory explanations and information have been provided to us by the management in response to all our requests.

Ithmaar has also complied with the Islamic Sharia rules and principles as determined by the Sharia Supervisory Board of the Group.

A handwritten signature in blue ink, appearing to read 'Prakash Chandra Singh'.

Partner's Registration No: 201

26 February 2018

Manama, Kingdom of Bahrain

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Consolidated statement of financial position

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	At 31 December 2017 (Audited)	At 31 December 2016 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	701,938	736,033
Commodity and other placements with banks, financial and other institutions	4	261,392	142,607
Murabaha and other financings	5	3,575,633	3,444,588
Musharaka financing		369,369	229,960
Investment in mudaraba	6	5,760	14,425
Sukuk and investment securities	7	1,862,885	1,874,782
Investment in associates	8	186,207	668,403
Restricted investment accounts	9	74,896	79,852
Assets acquired for leasing	10	347,760	256,204
Investment in real estate	11	247,902	242,594
Other assets	12	196,239	361,654
Assets classified as held-for-sale	13	478,432	-
Fixed assets	14	140,820	112,981
Intangible assets	15	162,126	177,227
Total assets		8,611,359	8,341,310
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	16	1,781,493	1,581,113
Due to banks, financial and other institutions	17	1,143,964	1,141,513
Due to investors	18	1,907,971	1,903,612
Other liabilities	19	431,645	342,622
Total liabilities		5,265,073	4,968,860
Equity of unrestricted investment accountholders	20	2,827,915	2,769,694
Minority interest	21	163,041	175,341
Total liabilities, equity of unrestricted investment accountholders and minority interest		8,256,029	7,913,895
Share capital	22	757,690	757,690
Treasury shares	22	(30,149)	(27,802)
Reserves		233,761	218,788
Accumulated losses		(605,972)	(521,261)
Total owners' equity		355,330	427,415
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		8,611,359	8,341,310

These consolidated financial statements were approved by the Board of Directors on 26 February 2018 and signed on their behalf by:


HRH Prince Amr Mohamed Al Faisal
Chairman


Dr. Amani Khaled Bouresli
Director


Ahmed Abdul Rahim
CEO

The notes 1 to 43 on pages 16 to 53 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Consolidated income statement

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended	
		31 December	31 December
		2017	2016
		(Audited)	(Audited)
INCOME			
Income from unrestricted investment accounts		164,961	143,535
Less: return to unrestricted investment accounts and impairment provisions		(88,100)	(98,938)
Group's share of income from unrestricted investment accounts as a Mudarib		76,861	44,597
Group's share of income from restricted investment accounts as a Mudarib	24	68	81
Income from murabaha and other financings	25	141,549	132,902
Share of profit after tax from associates	8	22,995	46,481
Income from other investments	26	123,139	136,811
Other income	27	27,847	52,294
Total income		392,459	413,166
Less: profit paid to banks, financial and other institutions – net		(161,898)	(151,018)
Operating income		230,561	262,148
EXPENSES			
Administrative and general expenses	28	(180,850)	(162,614)
Depreciation and amortization	8,13,14	(27,651)	(29,489)
Total expenses		(208,501)	(192,103)
Net income before provision for impairment and overseas taxation		22,060	70,045
Provision for impairment – net	30	(67,588)	(33,302)
Net income/(loss) before overseas taxation		(45,528)	36,743
Overseas taxation	31	(26,873)	(22,945)
NET PROFIT/(LOSS) FOR THE YEAR		(72,401)	13,798
Attributable to:			
Equity holders of the Ithmaar		(84,711)	3,279
Minority interests	21	12,310	10,519
		(72,401)	13,798
Basic and diluted earnings per share	23	US Cts (2.91)	US Cts 0.11

These consolidated financial statements were approved by the Board of Directors on 26 February 2018 and signed on their behalf by:



HRH Prince Amr Mohamed Al Faisal
Chairman



Dr. Amani Khaled Bouresli
Director



Ahmed Abdul Rahim
CEO

The notes 1 to 43 on pages 16 to 53 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Consolidated statement of changes in owners' equity for the year ended 31 December 2017
(Expressed in thousands of United States Dollars unless otherwise stated)

	Reserves								Total owners' equity		
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation		Total reserves	Accumulated losses
At 1 January 2017 (Audited)	757,690	(27,802)	148,662	38,418	50,727	25,711	2,648	(47,378)	218,788	(521,261)	427,415
Net loss for the year	-	-	-	-	-	-	-	-	-	(84,711)	(84,711)
Employee share incentive scheme (note 22)	-	(2,347)	423	-	-	-	-	-	423	-	(1,924)
Movement in fair value of sukuk and investment securities	-	-	-	-	-	5,061	-	-	5,061	-	5,061
Movement in fair value of investment in real estate	-	-	-	-	-	-	938	-	938	-	938
Movement in fair value of associates	-	-	-	-	-	8,009	-	-	8,009	-	8,009
Foreign currency translation adjustments	-	-	-	-	-	(8)	(136)	686	542	-	542
At 31 December 2017 (Audited)	757,690	(30,149)	149,085	38,418	50,727	38,773	3,450	(46,692)	233,761	(605,972)	355,330

The notes 1 to 43 on pages 16 to 53 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Consolidated statement of changes in owners' equity for the year ended 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

	Reserves										Total owners' equity
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment real estate value reserve	Foreign currency translation	Total reserves	Accumulated losses	
At 1 January 2016 (Audited)	757,690	(30,149)	149,692	38,090	50,727	9,212	1,586	(38,413)	210,894	(524,212)	414,223
Net income for the year	-	-	-	-	-	-	-	-	-	3,279	3,279
Employee share incentive scheme (note 22)	-	2,347	(1,030)	-	-	-	-	-	(1,030)	-	1,317
Transfer to statutory reserve	-	-	-	328	-	-	-	-	328	(328)	-
Movement in fair value of sukuk and investment securities	-	-	-	-	-	18,227	-	-	18,227	-	18,227
Movement in fair value of investment in real estate	-	-	-	-	-	-	657	-	657	-	657
Movement in fair value of associates	-	-	-	-	-	(1,739)	-	-	(1,739)	-	(1,739)
Foreign currency translation adjustments	-	-	-	-	-	11	405	(8,965)	(8,549)	-	(8,549)
At 31 December 2016 (Audited)	757,690	(27,802)	148,662	38,418	50,727	25,711	2,648	(47,378)	218,788	(521,261)	427,415

The notes 1 to 43 on pages 16 to 53 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Consolidated statement of cash flows

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended	
		31 December 2017	31 December 2016
		(Audited)	(Audited)
OPERATING ACTIVITIES			
Net income/(loss) before overseas taxation		(45,528)	36,743
<u>Adjustments for:</u>			
Depreciation and amortization	8,13,14	27,651	29,489
Share of profit after tax from associates	8	(22,995)	(46,481)
Provision for impairment – net	30	67,588	33,302
Gain on sale of fixed assets	27	(545)	(877)
Operating income before changes in operating assets and liabilities		26,171	52,176
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		(9,255)	113,110
Changes in operating assets and liabilities:			
Murabaha and other financings		(1,200)	(56,878)
Musharaka financing		(159,370)	(79,243)
Other assets		(62,703)	(51,564)
Customers' current accounts		166,353	139,577
Due to banks, financial and other institutions		31,121	(501,758)
Due to investors		113,940	140,885
Other liabilities		91,210	16,514
Increase in equity of unrestricted investment accountholders		77,951	370,840
Taxes paid		(22,731)	(14,791)
Net cash provided by operating activities		251,487	128,868
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Investment in mudaraba		8,665	6,923
Investment in restricted investment accounts		-	(1,129)
Assets acquired for leasing		(91,869)	(86,722)
Sukuk and investment securities		(116,368)	57,236
Dividend received from associates	8	28,730	18,202
Purchase of fixed assets		(11,398)	(4,724)
Net cash used in investing activities		(182,240)	(10,214)
FINANCING ACTIVITIES			
Minority interest		(1,326)	(12,490)
Net cash used in financing activities		(1,326)	(12,490)
Foreign currency translation adjustments		7,515	24,123
Net increase in cash and cash equivalents		75,436	130,287
Cash and cash equivalents at the beginning of the year		716,782	586,495
Cash and cash equivalents at the end of the year	4	792,218	716,782

The notes 1 to 43 on pages 16 to 53 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2017
(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2017	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	At 31 December 2017
Dilmunia Development Fund I L.P.*	149,491	192	-	-	(4,354)	145,329
Shamil Bosphorus Modaraba*	6,250	-	-	-	-	6,250
European Real Estate Portfolio*	15,915	-	-	-	(15,915)	-
European Real Estate Placements*	16,141	320	(68)	1,696	(1,685)	16,404
US Real Estate Placements*	27,554	-	-	-	(2,318)	25,236
Listed and non-listed equities	47	-	-	8	-	55
Cash and Placements with banks	9,406	-	-	-	(8,848)	558
TOTAL	224,804	512	(68)	1,704	(33,120)	193,832
FUNDS MANAGED ON AGENCY BASIS	65,255	-	-	-	(1,954)	63,301
	290,059	512	(68)	1,704	(35,074)	257,133

* Income(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 43 on pages 16 to 53 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2016	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Redemptions)	At 31 December 2016
Dilmunia Development Fund I L.P.*	149,900	(409)	-	-	-	149,491
Shamil Bosphorus Modaraba*	6,250	-	-	-	-	6,250
European Real Estate Portfolio*	16,641	-	-	(726)	-	15,915
European Real Estate Placements*	16,782	118	(10)	(749)	-	16,141
US Real Estate Placements*	28,065	-	(17)	16	(510)	27,554
Listed and non-listed equities	77,205	7,753	(54)	-	(84,857)	47
Cash and Placements with banks	-	-	-	-	9,406	9,406
TOTAL	294,843	7,462	(81)	(1,459)	(75,961)	224,804
FUNDS MANAGED ON AGENCY BASIS	65,230	-	-	-	25	65,255
	360,073	7,462	(81)	(1,459)	(75,936)	290,059

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 43 on pages 16 to 53 form an integral part of the consolidated financial statements.

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)**Notes to the Consolidated Financial Statements for the year ended 31 December 2017****1 INCORPORATION AND ACTIVITIES**

Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) ("Ithmaar") was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the "CBB"). Effective 14 April 2010 Ithmaar Bank B.S.C operated under Islamic retail banking license granted by the CBB.

During 2016, shareholders approved the reorganisation of Ithmaar Bank B.S.C at its Extraordinary General Meeting (EGM) held on 28 March 2016 to restructure Ithmaar Bank B.S.C into a holding company and two subsidiaries to segregate core and non-core assets. Effective 2 January 2017, the Bank has been converted in to Ithmaar Holding B.S.C., holding 100% of Ithmaar Bank B.S.C. (c) [retail license] and IB Capital B.S.C. (c) [investment license].

Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of Ithmaar.

The principal activities of Ithmaar and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

Ithmaar's activities are regulated by the CBB and are subject to the supervision of Shari'a Supervisory Board.

Ithmaar's shares are listed for trading on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment account holder authorises the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through Ithmaar's head office in Bahrain and its following principal subsidiary companies:

	% owned		Country of Incorporation	Principal business activity
	Voting	Economic		
Ithmaar Bank B.S.C. (C)	100	100	Kingdom of Bahrain	Banking
IB Capital B.S.C. (C)	100	100	Kingdom of Bahrain	Asset management
Faysal Bank Limited	67	67	Pakistan	Banking
Faisal Private Bureau (Switzerland) S.A.	100	100	Switzerland	Wealth and asset management
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) [under Voluntary Liquidation]	63	50	Kingdom of Bahrain	Mortgage finance
Cantara (Switzerland) S.A.	100	100	Switzerland	Investment holding
DMI Administrative Services S.A.	100	100	Switzerland	Management services
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Shamil Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles	Investment holding

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of Ithmaar.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

The consolidated financial statements of the Group are prepared under Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the year ended 31 December 2017 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 42.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2017.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

(i) New accounting standards: Issued but not yet effective

FAS 30 - Impairment, credit losses and onerous commitments

FAS 30 Impairment, credit losses and onerous commitments was issued in November 2017 replacing FAS 11 – 'Provision and Reserves'. It intends to define the accounting principles for impairment and credit losses (including expected credit losses) to be in line with ever-changing global best practices, as well as, provisions needed against anticipated losses on onerous commitments. The effective date for adoption is 1 January 2020.

As per CBB circular dated 29 November 2017 (ref: EDBS/KH/C/57/2017) all Islamic Banks are required to implement the said standard with effect from 1 January 2018.

Implementation of FAS 30 included significant judgements and assumptions on various matters which includes probability of default for financing portfolios, loss given default, exposure at default for both funded and unfunded exposures, forward looking adjustments, staging guidelines, movement between stages and low credit risk expedient.

The standard has significant impact on the consolidated financial statements of the Group and if adopted as of 1 January 2017, would result in additional impairment provisions in the range of \$81 million to \$97 million.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(ii) Basis of preparation

The consolidated financial statements are prepared on a historical cost convention except for investments carried at fair value through income statement and equity and investment in real estate.

(iii) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of Ithmaar, the Bahrain Commercial Companies Law, the CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards (IFRS).

(iv) Summary of significant accounting policies

(a) *Basis of consolidation*

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Subsidiaries, including Special Purpose entities that are controlled by Ithmaar, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the 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 owners equity.

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts.

Investment in associates which meet the criteria for held for sale are classified as assets-held-for-sale.

Intra-Group balances and minority interest

The consolidated financial statements include the assets, liabilities and results of operations of the Ithmaar, its subsidiary companies after adjustment for minority interest and equity of unrestricted investment accountholders managed by the Group. All significant intra-group balances and transactions have been eliminated. The financial statements of the subsidiaries are prepared on the same reporting periods as Ithmaar, using consistent accounting policies.

(b) *Foreign currency transactions and balances*

Functional and presentation currency

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency) and presented in US Dollars (the presentation currency). Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency will have no impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(b) *Foreign currency transactions and balances (continued)*

Transactions and balances

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

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;
2. Income and expenses for each income statement are translated at average exchange rates; and
3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) *Accounting estimates and judgements*

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

1. Classification of investments

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

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(c) *Accounting estimates and judgements (continued)*

2. 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, judgements are made about the objectives of the SPEs activities, Group's exposure to the risks and rewards, as well as its ability to make operational decisions of the SPEs.

3. Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. Management makes judgements about counterparty's financial situation and the net realisable value of any underlying assets. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

4. Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Group to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding and estimated inflows from disposal of assets.

(d) *Cash and cash equivalents*

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(e) *Murabaha and other financings*

Murabaha financing is stated at cost less allowance for doubtful receivables.

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

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate, with a market value equal to or in excess of the principal amount financed under the respective financing agreement. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Specific provision is made when the management consider that there is impairment in the carrying amount of Murabaha and other financings.

In addition to specific provision, the Group also assesses impairment collectively for losses on financing facilities that are not individually significant and where there is not yet objective evidence of individual impairment. General provision is evaluated at each reporting date.

(f) *Musharaka financing*

Musharaka financing is stated at cost less provision for impairment.

Specific provision is made when the management consider that there is impairment in the carrying amount of Musharaka financing.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) *Investments*

1. Investments carried at amortised cost

Sukuk and debt-type instruments are carried at amortised cost where the investment is managed on a contractual yield basis and their performance evaluated on the basis of contractual cash flows. These investments are measured at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

Equity-type instruments are investments that do not exhibit the feature of debt type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Equity-type investments carried at fair value through equity are those equity instruments which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity; these are designated as such at inception. Regular-way purchases and sales of these investments are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset.

These investments are initially recognised at cost plus transaction costs. These investments are subsequently re-measured at fair value and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity under "Investments fair value reserve", until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as financial assets carried at fair value through equity, a significant or prolonged decline in fair value of the security below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the investment carried at fair value through equity, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the consolidated income statement is removed from the equity and recognised in the consolidated income statement. Impairment losses on equity instruments previously recognised in the consolidated income statement are not subsequently reversed through the consolidated income statement.

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealers margin. These investments are recognised on the acquisition date at cost including the direct expenses related to the acquisition. At the end of each reporting period, investments are re-measured at their fair value and the gain/loss is recognised in the consolidated income statement.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) *Investments (continued)*

4. Restricted investment accounts

Investment in restricted investment accounts is initially recorded at cost and subsequently re-measured at fair value. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment accountholders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement.

5. Investment in real estate

All properties held for rental income or for capital appreciation purposes or both are classified as investment in real estate. Investment in real estate held for capital appreciation are initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement. The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

Investment in real estate held for rental purposes are stated at cost less accumulated depreciation. Development properties are stated at lower of cost or estimated net realizable value.

6. Investment in mudaraba

Mudaraba investments are recorded at cost. Decline in the value of investment which is not temporary is charged directly to the consolidated income statement.

7. Fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

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

(h) *Assets acquired for leasing (Ijarah)*

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

A provision for doubtful receivable is made if, in the opinion of the management, the recovery of outstanding rentals are doubtful.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(i) *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are determined by comparing proceeds with carrying amounts.

(j) *Intangible assets*

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for impairment on annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the 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 acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Negative goodwill resulting from the acquisition of business is reported in the consolidated income statement.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(j) *Intangible assets*

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

(k) *Assets classified as held-for-sale*

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying value and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

(l) *Current taxation*

There is no tax on corporate income in the Kingdom of Bahrain. However, the subsidiaries incorporated in tax jurisdictions pay tax as per local regulations.

(m) *Deferred taxation*

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(n) *Provision for staff benefits*

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction.

For variable remuneration, a provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

(o) *Due to investors*

Funds received from depositors who take the corporate risk of Ithmaar or its subsidiaries are classified as "Due to investors"

(p) *Equity of unrestricted investment accountholders*

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The assets included in the equity of unrestricted investment accountholders are measured on the same basis of various category of the assets as set out above. The amount appropriated to investment risk reserve are out of the total income from URIA assets before charging any expense relating to the management fee, mudarib share of profit, profit equalization reserve and profit to investment accountholders. Profit equalisation reserve is created to maintain a certain level of return on investments for investment accountholders.

(q) *Restricted investment accounts*

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. The assets included in the restricted investment accounts are recorded at Net Asset Value (NAV).

(r) *Treasury shares*

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(s) *Statutory reserve*

In accordance with the Bahrain Commercial Companies Law 10% of the Group's net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(t) *Revenue recognition*

1. Profit participation and management fees

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of Ithmaar, the accrual is justified.

Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Dividend income

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

7. Fees and commissions

Fees and commissions (including banking services) are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when Ithmaar has fulfilled all its obligations in connection with the related transaction.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(u) Profit allocation between group and investment accountholders

The Group maintains separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting impairment provisions, profit equalization reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Impairment provision is made when the management considers that there is impairment in the carrying amount of assets financed by the investment account.

(v) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	168,927	2,185	171,112	160,465	1,393	161,858
Cash and balances with banks and central banks	462,062	68,764	530,826	521,091	53,084	574,175
	630,989	70,949	701,938	681,556	54,477	736,033

4 COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	261,392	-	261,392	142,607	-	142,607
Less: Provisions	-	-	-	-	-	-
	261,392	-	261,392	142,607	-	142,607

Cash and cash equivalents for the purpose of cash flow statement are as under:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	630,989	70,949	701,938	681,556	54,477	736,033
Commodity and other placements with banks, financial and other institutions - net	261,392	-	261,392	142,607	-	142,607
Less: Placement maturing after ninety days	-	-	-	-	-	-
Less: Balances with central bank relating to minimum reserve requirement	(168,927)	(2,185)	(171,112)	(160,465)	(1,393)	(161,858)
	723,454	68,764	792,218	663,698	53,084	716,782

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Notes to the Consolidated Financial Statements for the year ended 31 December 2017

(Expressed in thousands of United States Dollars unless otherwise stated)

5 MURABAHA AND OTHER FINANCINGS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	2,407,415	1,492,033	3,899,448	2,314,642	1,438,493	3,753,135
Less: Provisions	(306,644)	(17,171)	(323,815)	(286,791)	(21,756)	(308,547)
	2,100,771	1,474,862	3,575,633	2,027,851	1,416,737	3,444,588

Other financings represents conventional loans and advances totalling \$1,683 million (31 December 2016: \$1,647 million) made by a subsidiary of Ithmaar.

The movement in provisions is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	286,791	21,756	308,547	296,047	52,869	348,916
Charge for the year	43,427	-	43,427	33,618	5,550	39,168
Write back during the year	(19,341)	-	(19,341)	(13,042)	-	(13,042)
Utilised during the year	(1,286)	(7,222)	(8,508)	(26,224)	(36,826)	(63,050)
Reclassification	8,792	(261)	8,531	-	-	-
Transfer from/(to) Investment Risk Reserve	-	3,000	3,000	(4,046)	-	(4,046)
Exchange differences and other movements	(11,739)	(102)	(11,841)	438	163	601
At 31 December	306,644	17,171	323,815	286,791	21,756	308,547

Total provision of \$323.8 million (31 December 2016: \$308.5 million) includes general provision of \$31.8 million (31 December 2016: \$13.8 million).

6 INVESTMENT IN MUDARABA

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Mudaraba investments	17,820	-	17,820	733	26,006	26,739
Less : Provisions	(12,060)	-	(12,060)	(733)	(11,581)	(12,314)
	5,760	-	5,760	-	14,425	14,425

Certain assets totalling Nil million (31 December 2016: \$14.4 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provisions is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	733	11,581	12,314	854	11,581	12,435
Reclassification	11,327	(11,581)	(254)	-	-	-
Exchange differences and other movements	-	-	-	(121)	-	(121)
At 31 December	12,060	-	12,060	733	11,581	12,314

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7 SUKUK AND INVESTMENT SECURITIES

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
<i>Held for trading</i>						
Debt-type instruments – unlisted	304,895	-	304,895	16,606	-	16,606
Equity-type securities – listed	-	-	-	-	-	-
	304,895	-	304,895	16,606	-	16,606
Investment securities at fair value through equity						
Equity-type securities – listed	55,271	-	55,271	57,401	-	57,401
Equity-type securities – unlisted	307,705	-	307,705	227,689	78,829	306,518
	362,976	-	362,976	285,090	78,829	363,919
Provision for impairment	(155,515)	-	(155,515)	(147,539)	(5,700)	(153,239)
	207,461	-	207,461	137,551	73,129	210,680
Investment securities carried at amortised cost						
Sukuk – unlisted	17,427	232,885	250,312	28,784	156,517	185,301
Other debt-type instruments – listed	73,798	-	73,798	74,201	-	74,201
Other debt-type instruments – unlisted	1,045,604	-	1,045,604	1,408,059	-	1,408,059
	1,136,829	232,885	1,369,714	1,511,044	156,517	1,667,561
Provision for impairment	(19,185)	-	(19,185)	(20,065)	-	(20,065)
	1,117,644	232,885	1,350,529	1,490,979	156,517	1,647,496
	1,630,000	232,885	1,862,885	1,645,136	229,646	1,874,782

Sukuk and investment securities include conventional investments totalling \$1,402.5 million (31 December 2016: \$1,490.1 million) made by a subsidiary of Ithmaar.

The fair value of investment securities carried at amortised cost was \$1,351.7 million (31 December 2016: \$1,650.4 million) and these are tradable

Certain assets totalling \$1.3 million (31 December 2016: \$10.4 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provisions relating to sukuk and investment securities is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	167,604	5,700	173,304	162,799	5,700	168,499
Charge for the year	10,856	-	10,856	7,013	-	7,013
Write back during the year	(78)	-	(78)	(637)	-	(637)
Utilised during the year	(333)	-	(333)	(578)	-	(578)
Reclassification	(2,179)	(5,700)	(7,879)	-	-	-
Exchange differences and other movements	(1,170)	-	(1,170)	(993)	-	(993)
At 31 December	174,700	-	174,700	167,604	5,700	173,304

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7 SUKUK AND INVESTMENT SECURITIES (continued)

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2017				
Investment securities at fair value through income statement				
Debt-type instruments	-	304,895	-	304,895
Equity securities		-	-	-
Investment securities at fair value through equity				
Equity securities	49,081	728	157,652	207,461
	49,081	305,623	157,652	512,356
At 31 December 2016				
Investment securities at fair value through income statement				
Debt-type instruments	-	16,606	-	16,606
Equity securities	-	-	-	-
Investment securities at fair value through equity				
Equity securities	52,342	-	158,338	210,680
	52,342	16,606	158,338	227,286

There was no movement between level 1 and level 2 during the year.

Reconciliation of Level 3 Items

	Investment securities at fair value through equity	
	2017	2016
At 1 January	158,338	153,078
Total gains/(losses) recognised in		
- Income statement	(9,367)	(5,934)
- Equity	1,148	12,327
Purchases	1,000	-
Sales	(1,120)	(1,133)
Reallocation	7,653	-
At 31 December	157,652	158,338
Total gains for the year included in consolidated income statement for 31 December	6,379	2,272

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8 INVESTMENT IN ASSOCIATES

Investment in associated companies, as adjusted for the Group's share of their results comprise:

Name of company	2017	% of Share- holding	2016	% of Share- holding	Country	Activity
Unlisted:						
Solidarity Group Holding B.S.C. (C)	68,834	36	68,076	36	Bahrain	Takaful
Citic International Assets Management Limited	-	-	74,588	20	Hong Kong	Asset management
Sanpak Engineering Industries (Pvt) Limited	933	31	536	31	Pakistan	Manufacturing
Misr Company for Packing Materials "Egywrap"	2,461	23	2,224	23	Egypt	Trading
Faysal Asset Management Limited	210	30	441	30	Pakistan	Asset management
Ithraa Capital Company	4,183	23	3,858	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	107,619	30	107,775	31	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	1,679	40	1,679	40	Bahrain	Real estate
Islamic Trading Company E.C	288	24	669	24	Bahrain	Trading
Listed:						
BBK B.S.C	-	-	408,557	25	Bahrain	Banking
	<u>186,207</u>		<u>668,403</u>			

Investment in associates include conventional investments totalling \$107.6 million (31 December 2016: \$590.9 million).

Certain assets totalling \$2.5 million (31 December 2016: \$2.2 million) included above are held by third parties as nominee on behalf of the Group.

Amortisation charge for the intangible assets for the year ended 31 December 2017 amounted to \$3.4 million (31 December 2016: \$6.7 million)

Summarised financial position of associates that have been equity accounted:

	31 December 2017	31 December 2016
Total assets	898,010	14,176,938
Total liabilities	295,526	11,589,096
Total revenues	149,531	413,721
Total net profit	20,723	166,421

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9 RESTRICTED INVESTMENT ACCOUNTS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment in restricted investment accounts	140,215	7,500	147,715	103,253	43,876	147,129
Less: provisions	(72,819)	-	(72,819)	(58,651)	(8,626)	(67,277)
	67,396	7,500	74,896	44,602	35,250	79,852

The movement in provisions is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	58,651	8,626	67,277	58,723	8,626	67,349
Charge for the year	4,778	-	4,778	-	-	-
Reclassification	8,626	(8,626)	-	-	-	-
Exchange differences and other movements	764	-	764	(72)	-	(72)
At 31 December	72,819	-	72,819	58,651	8,626	67,277

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10 ASSETS ACQUIRED FOR LEASING

	31 December 2017			31 December 2016		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	391,713	(43,953)	347,760	293,284	(37,080)	256,204

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2017	31 December 2016
Relating to owners	6,535	9,553
Relating to unrestricted investment accounts	341,225	246,651
	347,760	256,204

11 INVESTMENT IN REAL ESTATE

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	277,423	-	277,423	261,623	-	261,623
Less: provisions	(29,521)	-	(29,521)	(19,029)	-	(19,029)
	247,902	-	247,902	242,594	-	242,594

Fair value of investment properties at the year end approximates their carrying value.

Certain assets totalling \$1.2 million (31 December 2016: \$1.2 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provisions for investment in real estate is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	19,029	-	19,029	17,282	-	17,282
Charge for the year	12,993	-	12,993	2,900	-	2,900
Write back during the year	-	-	-	-	-	-
Utilised during the year	-	-	-	-	-	-
Reclassification	(4,334)	-	(4,334)	-	-	-
Exchange differences and other movements	1,833	-	1,833	(1,153)	-	(1,153)
At 31 December	29,521	-	29,521	19,029	-	19,029

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12 OTHER ASSETS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	152,343	40,127	192,470	158,202	98,004	256,206
Due from related parties	10,922	-	10,922	93,582	-	93,582
Taxes – deferred	22,482	-	22,482	29,800	-	29,800
Taxes – current	27,424	-	27,424	20,185	-	20,185
Assets acquired against claims	17,280	-	17,280	18,529	-	18,529
	230,451	40,127	270,578	320,298	98,004	418,302
Provision for impairment	(62,084)	(12,255)	(74,339)	(44,685)	(11,963)	(56,648)
	168,367	27,872	196,239	275,613	86,041	361,654

The movement in provisions is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	44,685	11,963	56,648	62,141	12,188	74,329
Charge for the year	14,898	-	14,898	866	-	866
Write back during the year	-	-	-	(915)	-	(915)
Utilised during the year	(1,301)	-	(1,301)	(18,629)	(63)	(18,692)
Reclassification	3,299	292	3,591	-	-	-
Exchange differences and other movements	503	-	503	1,222	(162)	1,060
At 31 December	62,084	12,255	74,339	44,685	11,963	56,648

13 ASSETS CLASSIFIED AS HELD-FOR-SALE

The Group has initiated an active program to locate a buyer for certain assets. Accordingly, these assets were consequently presented as an asset classified as held for sale in the consolidated statement of financial position.

At the reporting date, the assets classified as held for sale amounted to \$478.4 million.

Assets classified as held-for-sale amounting to \$411 million is pledged as collateral against borrowings (note 17) with the terms and conditions in the ordinary course of business.

14 FIXED ASSETS

	Relating to owners							
	31 December 2017				31 December 2016			
	Cost	Accumulated depreciation	Provision for impairment	Net book amount	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	129,063	(12,890)	(2,859)	113,314	106,633	(13,256)	(2,804)	90,573
Leasehold improvements	34,708	(21,822)	-	12,886	29,845	(21,544)	-	8,301
Furniture and equipment	76,847	(63,309)	-	13,538	75,045	(62,033)	-	13,012
Motor vehicles	3,146	(2,064)	-	1,082	3,240	(2,145)	-	1,095
	243,764	(100,085)	(2,859)	140,820	214,763	(98,978)	(2,804)	112,981

Depreciation charge for the year ended 31 December 2017 amounted to \$7.5 million (31 December 2016: \$5.9 million)

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15 INTANGIBLE ASSETS

	Relating to owners				
					31 December 2017
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	87,830	-	(8,500)	(9,231)	70,099
Customer relations	113,565	(62,816)	-	(10,381)	40,368
Core deposits	155,546	(88,474)	-	(20,324)	46,748
Others	30,659	(25,748)	-	-	4,911
	387,600	(177,038)	(8,500)	(39,936)	162,126

	Relating to owners				
	31 December 2016				
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	87,830	-	(8,500)	(9,231)	70,099
Customer relations	113,565	(55,966)	-	(10,604)	46,995
Core deposits	155,546	(80,696)	-	(20,324)	54,526
Others	29,312	(23,705)	-	-	5,607
	386,253	(160,367)	(8,500)	(40,159)	177,227

Amortisation charge for the year ended 31 December 2017 amounted to \$16.8 million (31 December 2016: \$16.8 million)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2017	31 December 2016
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	62,570	66,070
Faysal Bank Limited	7,529	7,529
	70,099	73,599

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) calculation using cash flow projections from financial budgets approved by the Group's senior management covering a three year period and Fair Value Less Cost to Sell (FVLCTS). The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

16 CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to \$215.6 million (31 December 2016: \$196.3 million which was subject to sanctions under US, EU and UN measures until January 2016).

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17 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	1,051,925	40,372	1,092,297	1,095,908	11,792	1,107,700
Due to financial and other institutions	51,667	-	51,667	33,813	-	33,813
	1,103,592	40,372	1,143,964	1,129,721	11,792	1,141,513

Due to banks, financial and other institutions include balances totalling \$432.1 million from two counterparties (31 December 2016: \$417.2 million which were subject to sanctions under US, EU and UN measures until January 2016) and having contractual maturity ranging to up to one month.

Due to banks, financial and other institutions include conventional deposits totalling \$457.1 million (31 December 2016: \$505.2 million), accepted by a subsidiary of Ithmaar.

At 31 December 2017, there were collateralized borrowings in aggregate \$117.7 million (31 December 2016: \$134.5 million).

Cash dividends amounting to \$21.8million (31 December 2016: \$14.6 million) on certain shares pledged as collateral was directly received by the lender (as per agreed terms and conditions) during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

18 DUE TO INVESTORS

	Relating to owners	
	31 December 2017	31 December 2016
Due to corporate institutions	987,820	1,153,623
Due to individuals	849,545	668,559
Due to financial institutions	70,606	81,430
	1,907,971	1,903,612

Due to investors represent conventional deposits accepted by a subsidiary of the Group.

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19 OTHER LIABILITIES

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	282,937	103,316	386,253	229,978	105,449	335,427
Due to related parties	40,089	-	40,089	2,188	-	2,188
Provision for taxation – current	948	-	948	1,006	-	1,006
Provision for taxation – deferred	4,355	-	4,355	4,001	-	4,001
	328,329	103,316	431,645	237,173	105,449	342,622

20 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	Notes	31 December 2017	31 December 2016
Cash and balances with banks and central banks	3	70,949	54,477
Murabaha and other financings	5	1,474,862	1,416,737
Investment in mudaraba	6	-	14,425
Musharaka financing		359,083	211,926
Investment in associates	8	-	4,340
Sukuk and investment securities	7	232,885	229,646
Restricted investment accounts	9	7,500	35,250
Assets acquired for leasing	10	341,225	246,651
Other assets	12	27,872	86,041
Due from the Group (net)		742,957	734,911
		3,257,333	3,034,404
Customers' current accounts	16	(285,730)	(147,469)
Due to banks, financial and other institutions	17	(40,372)	(11,792)
Other liabilities	19	(103,316)	(105,449)
Equity of unrestricted investment accountholders		2,827,915	2,769,694

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20 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to \$29.4 million (31 December 2016: \$59.6 million). The movement of impairment provisions relating to unrestricted investment accountholders has been disclosed in note 30.

Other liabilities include profit equalization reserve and the movement is as follows:

	31 December 2017	31 December 2016
At 1 January	17,548	12,547
Net addition during the year	-	5,001
At 31 December	17,548	17,548

Other liabilities include investment risk reserve and the movement is as follows:

	31 December 2017	31 December 2016
At 1 January	17,850	8,804
Net addition during the year	3,100	5,000
Transfer (to)/ from general provision (note 30)	(3,000)	4,046
At 31 December	17,950	17,850

The average gross rate of return in respect of unrestricted investment accounts was 5% for 31 December 2017 (31 December 2016: 4.7%) of which 2.9% (31 December 2016: 2.8%) was distributed to the investors and the balance was either set aside as provisions, management fees (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

21 MINORITY INTEREST

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2017		31 December 2016	
	Minority %		Minority %	
Faysal Bank Limited	33	113,980	33	109,780
Health Island B.S.C. (C)	50	49,386	50	63,176
Cityview Real Estate Development B.S.C. (C)	49	(4,490)	49	(2,694)
Sakana Holistic Housing Solutions B.S.C. (C)	50	4,165	50	5,079
		163,041		175,341

Minority interest in the consolidated income statement of \$12.3 million (31 December 2016: \$10.5 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

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22 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
Total outstanding	3,030,755	757,690
Treasury shares	(111,207)	(27,802)
At 31 December 2016 (Audited)	2,919,548	729,888
Issued and fully paid		
Total outstanding as at 1 January 2017	3,030,755	757,690
Treasury shares *	(120,595)	(30,149)
At 31 December 2017 (Audited)	2,910,160	727,541

Ithmaar's total issued and fully paid share capital at 31 December 2017 comprises 3,030,755,027 shares at \$0.25 per share amounting to \$757,688,757. The share capital of Ithmaar is denominated in United States Dollars and these shares are traded on Bahrain Bourse in United States dollars, Bursa Kuwait in Kuwaiti Dinars and Dubai Financial Market in Arab Emirates Dirham.

Ithmaar owned 120,595,238 of its own shares at 31 December 2017 (31 December 2016: 111,207,124). The shares are held as treasury shares and the Bank has the right to reissue these shares at a later date.

The shares relating to employee share incentive scheme have been reallocated to treasury shares during the year since the employees will be awarded Ithmaar Bank B.S.C. (c) shadow shares instead of Ithmaar Holding shares.

23 EARNINGS PER SHARE (BASIC & DILUTED)

Earnings per share (Basic & Diluted) are calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	31 December 2017	31 December 2016
Net loss attributable to shareholders (\$ '000)	(84,711)	3,279
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,957	2,910,160
Earnings per share (Basic & Diluted) - US Cents	(2.91)	0.11

Earnings per share on non-sharia compliant income and expenses is included under note 42.

24 INCOME FROM RESTRICTED INVESTMENT ACCOUNTS AS A MUDARIB

Income from restricted investment accounts comprises profit participation as a Mudarib and investment management fees net of contribution made to certain restricted funds.

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25 INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	31 December 2017	31 December 2016
Income from murabaha financing	9,259	10,624
Income from other financings	132,290	122,278
	141,549	132,902

26 INCOME FROM OTHER INVESTMENTS

	Relating to owners	
	31 December 2017	31 December 2016
Income from investment securities at amortised cost	83,458	111,897
Income from investment securities at fair value through equity	9,519	5,331
Income from investment securities at fair value through income statement	26,204	15,426
Income from investment in real estate	3,958	4,157
	123,139	136,811

27 OTHER INCOME

	Relating to owners	
	31 December 2017	31 December 2016
Income from banking services	46,227	43,129
Foreign exchange income/(loss)	(20,096)	4,423
Gain on disposal of fixed assets	545	877
Income from fees and commissions	1,171	3,865
	27,847	52,294

28 ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2017	31 December 2016
Salaries and other benefits	90,775	79,148
Office expenses	48,267	43,023
Professional fees	10,744	12,640
Other administrative expenses	31,064	27,803
	180,850	162,614

29 SOCIAL RESPONSIBILITY

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

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Notes to the Consolidated Financial Statements for the year ended 31 December 2017

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30 PROVISIONS

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	659,325	59,626	718,951	683,717	90,964	774,681
Charge for the year	87,008	-	87,008	47,897	5,550	53,447
Write back during the year	(19,420)	-	(19,420)	(14,595)	-	(14,595)
Transfer from Investment Risk Reserve (note 20)	-	3,000	3,000	(4,046)	-	(4,046)
Utilised during the year	(2,920)	(7,222)	(10,142)	(52,309)	(36,888)	(89,197)
Reclassification	25,916	(25,916)	-	-	-	-
Exchange differences	(10,194)	(62)	(10,256)	(1,339)	-	(1,339)
At 31 December	739,715	29,426	769,141	659,325	59,626	718,951

The allocation of the provision to the respective assets is as follows:

	31 December 2017			31 December 2016		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	306,644	17,171	323,815	286,791	21,756	308,547
Investment in mudaraba	12,060	-	12,060	733	11,581	12,314
Investment in associates	70,528	-	70,528	70,528	-	70,528
Sukuk and investment securities	174,700	-	174,700	167,604	5,700	173,304
Restricted investment accounts	72,819	-	72,819	58,651	8,626	67,277
Fixed assets	2,859	-	2,859	2,804	-	2,804
Investment in real estate	29,521	-	29,521	19,029	-	19,029
Intangible assets	8,500	-	8,500	8,500	-	8,500
Other assets	62,084	12,255	74,339	44,685	11,963	56,648
	739,715	29,426	769,141	659,325	59,626	718,951

Total provisions of \$769.1 million (31 December 2016: \$719 million) includes \$35.2 million (31 December 2016: \$28.9 million) held as general provisions. The movement in general provision is as follows:

	Relating to owners	
	31 December 2017	31 December 2016
At 1 January	28,918	16,492
Charge for the year	21,494	17,787
Transfer to Investment Risk Reserve (note 20)	-	(4,046)
Allocations	(15,166)	(1,315)
Exchange differences	-	-
At 31 December	35,246	28,918

General provision of \$35.2 million (31 December 2016: \$28.9 million) includes \$31.8 million (31 December 2016: \$13.8 million) in respect of Murabaha and other financings.

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31 OVERSEAS TAXATION

	Relating to owners	
	31 December 2017	31 December 2016
Current taxes	17,752	14,338
Deferred taxes	9,121	8,607
	26,873	22,945

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax receivable/(payable)

	31 December 2017	31 December 2016
At 1 January	19,179	15,538
Charge for the year	(17,752)	(14,338)
Payments made	22,731	14,791
Exchange differences and other movements	2,318	3,188
At 31 December	26,476	19,179

Deferred tax asset/(liability)

	31 December 2017	31 December 2016
At 1 January	25,799	37,413
Charge for the year	(9,121)	(8,607)
Charges due to fair value reserve	2,280	(3,605)
Exchange differences and other movements	(831)	598
At 31 December	18,127	25,799

32 SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

- (i) Retail and Corporate banking, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.
- (ii) Trading Portfolio, where the Group trades in equity deals, foreign exchange and other transactions with the objective of realizing short-term gains.
- (iii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2017					31 December 2016				
	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total
Operating income	173,810	43,122	13,578	51	230,561	209,911	46,713	3,461	2,063	262,148
Total expenses	(168,795)	(11,165)	(28,323)	(218)	(208,501)	(171,336)	(2,882)	(17,646)	(239)	(192,103)
Net income/(loss) before provision and overseas taxation	5,015	31,957	(14,745)	(167)	22,060	38,575	43,831	(14,185)	1,824	70,045
Provision and overseas taxation	(46,403)	(12,633)	(35,462)	37	(94,461)	(25,308)	(18,996)	(11,169)	(774)	(56,247)
Net income/(loss) for the year	(41,388)	19,324	(50,207)	(130)	(72,401)	13,267	24,835	(25,354)	1,050	13,798
Attributable to:										
Equity holders of Ithmaar	(47,199)	12,864	(50,292)	(84)	(84,711)	9,896	16,533	(23,763)	613	3,279
Minority interests	5,811	6,460	85	(46)	12,310	3,371	8,302	(1,591)	437	10,519
	(41,388)	19,324	(50,207)	(130)	(72,401)	13,267	24,835	(25,354)	1,050	13,798
Total assets	5,015,399	1,822,973	1,764,533	8,454	8,611,359	5,498,591	1,646,567	1,185,085	11,067	8,341,310
Total liabilities and equity of unrestricted investment account holders	7,463,066	525,771	104,055	96	8,092,988	7,156,975	507,141	74,356	82	7,738,554

The Group constitutes of four geographical segments which are Europe, North America, Middle East & Africa, Asia and others

	31 December 2017						31 December 2016					
	Europe	North America	Middle East & Africa	Asia	Others	Total	Europe	North America	Middle East & Africa	Asia	Others	Total
Operating income	3,793	1,797	34,358	188,493	2,120	230,561	2,566	2,793	70,801	183,869	2,119	262,148
Total expenses	(10,501)	-	(74,733)	(123,267)	-	(208,501)	(9,403)	-	(67,898)	(114,795)	(7)	(192,103)
Net income/(loss) before provision and overseas taxation	(6,708)	1,797	(40,375)	65,226	2,120	22,060	(6,837)	2,793	2,903	69,074	2,112	70,045
Provision and overseas taxation	(922)	-	(70,574)	(22,965)	-	(94,461)	(1,439)	(714)	(23,486)	(30,608)	-	(56,247)
Net income/(loss) for the year	(7,630)	1,797	(110,949)	42,261	2,120	(72,401)	(8,276)	2,079	(20,583)	38,466	2,112	13,798
Attributable to:												
Equity holders of the Ithmaar	(7,630)	1,797	(109,176)	28,178	2,120	(84,711)	(8,276)	2,079	(18,243)	25,607	2,112	3,279
Minority interests	-	-	(1,773)	14,083	-	12,310	-	-	(2,340)	12,859	-	10,519
	(7,630)	1,797	(110,949)	42,261	2,120	(72,401)	(8,276)	2,079	(20,583)	38,466	2,112	13,798
Total assets	453,090	40,400	3,580,212	4,509,165	28,492	8,611,359	444,702	82,789	3,379,948	4,328,237	105,634	8,341,310
Total liabilities and equity of unrestricted investment account holders	251,374	23,847	3,729,712	4,084,822	3,233	8,092,988	199,075	16,599	3,586,489	3,919,297	17,094	7,738,554

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33 ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. Ithmaar does not collect or pay Zakah on behalf of its owners and its investment accountholders.

34 CONTINGENT LIABILITIES AND COMMITMENTS**Contingent liabilities**

	31 December 2017	31 December 2016
Acceptances and endorsements	62,824	72,669
Guarantees and irrevocable letters of credit	878,393	746,789
Customer and other claims	324,995	353,571
	1,266,212	1,173,029

Commitments

	31 December 2017	31 December 2016
Undrawn facilities, financing lines and other commitments to finance	1,897,757	1,849,842

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35 CURRENCY RISK

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

	United States Dollar	Pakistan Rupee	Swiss Franc	Bahraini Dinar	Euro	UAE Dirham	Hong Kong Dollar	Other	Total
31 December 2017									
Cash and balances with banks and central banks	89,352	290,099	1,418	205,502	87,620	12,677	28	15,242	701,938
Commodity and other placements with banks, financial and other institutions	-	82,018	-	149,380	29,994	-	-	-	261,392
Murabaha and other financings	452,712	1,718,927	-	1,310,506	9,806	18,685	-	64,997	3,575,633
Musharaka financing	-	369,369	-	-	-	-	-	-	369,369
Investment in mudaraba	5,760	-	-	-	-	-	-	-	5,760
Sukuk and investment securities	148,434	1,635,357	739	70,480	5,201	-	-	2,674	1,862,885
Investment in associates	-	1,143	-	178,421	-	-	-	6,643	186,207
Restricted investment accounts	72,103	-	-	-	2,793	-	-	-	74,896
Assets acquired for leasing	4,046	-	-	343,714	-	-	-	-	347,760
Investment in real estate	32,158	10,595	43,528	126,703	-	-	-	34,918	247,902
Other assets	31,648	120,631	6,148	24,503	3,098	-	-	10,211	196,239
Assets classified as held-for-sale	-	-	-	411,466	-	-	66,966	-	478,432
Fixed assets	19,619	54,158	(874)	67,917	-	-	-	-	140,820
Intangible assets	148,575	13,551	-	-	-	-	-	-	162,126
Total assets	1,004,407	4,295,848	50,959	2,888,592	138,512	31,362	66,994	134,685	8,611,359
Customer current accounts	138,305	1,018,779	-	354,340	252,270	91	-	17,708	1,781,493
Due to banks, financial and other institutions	169,380	476,479	-	62,176	106,973	328,918	-	38	1,143,964
Due to investors	120,026	1,761,396	-	-	7,788	-	-	18,761	1,907,971
Other liabilities	421	171,155	-	258,221	1,837	-	-	11	431,645
Total liabilities	428,132	3,427,809	-	674,737	368,868	329,009	-	36,518	5,265,073
Equity of unrestricted investment accountholders	454,905	352,398	-	2,020,042	570	-	-	-	2,827,915
Total liabilities and equity of unrestricted investment accountholders	883,037	3,780,207	-	2,694,779	369,438	329,009	-	36,518	8,092,988
Contingent liabilities and commitments	624,247	1,872,336	13,255	510,623	86,250	2,331	-	54,927	3,163,969
31 December 2016									
Total assets	1,025,155	4,154,225	49,099	2,580,226	248,311	55,044	74,626	154,624	8,341,310
Total liabilities and equity of unrestricted investment accountholders	835,738	3,692,830	9,047	2,490,035	334,576	342,697	-	33,631	7,738,554
Contingent liabilities and commitments	832,301	1,544,133	20,028	525,477	47,807	4,645	-	48,480	3,022,871

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36 MATURITY PROFILE

The maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2017	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	641,947	59,991	-	-	-	701,938
Commodity and other placements with banks, financial and other institutions	261,392	-	-	-	-	261,392
Murabaha and other financings	475,364	634,602	422,474	1,277,183	766,010	3,575,633
Musharaka financing	6,560	9,028	23,469	180,202	150,110	369,369
Investment in mudaraba	-	-	-	5,760	-	5,760
Sukuk and investment securities	712,358	560,245	144,911	275,748	169,623	1,862,885
Investment in associates	-	-	-	-	186,207	186,207
Restricted investment accounts	-	-	-	-	74,896	74,896
Assets acquired for leasing	3,390	526	7,632	8,247	327,965	347,760
Investment in real estate	-	-	-	44,350	203,552	247,902
Other assets	103,876	10,453	7,564	46,245	28,101	196,239
Assets classified as held-for-sale	-	-	478,432	-	-	478,432
Fixed assets	16	18	594	12,305	127,887	140,820
Intangible assets	-	-	492	5,944	155,690	162,126
Total assets	2,204,903	1,274,863	1,085,568	1,855,984	2,190,041	8,611,359
Customer current accounts	1,781,493	-	-	-	-	1,781,493
Due to banks, financial and other institutions	783,579	131,365	193,449	21,972	13,599	1,143,964
Due to investors	1,205,274	308,800	385,446	8,451	-	1,907,971
Other liabilities	263,780	15,612	84,141	61,864	6,248	431,645
Total liabilities	4,034,126	455,777	663,036	92,287	19,847	5,265,073
Equity of unrestricted investment accountholders	1,242,575	312,958	1,005,427	266,955	-	2,827,915
Total liabilities and equity of unrestricted investment accountholders	5,276,701	768,735	1,668,463	359,242	19,847	8,092,988
Contingent liabilities and commitments	1,516,946	394,922	830,791	372,412	48,898	3,163,969
31 December 2016						
Total assets	1,766,261	989,469	1,376,364	1,879,955	2,329,261	8,341,310
Total liabilities and equity of unrestricted investment accountholders	4,980,248	755,400	1,447,756	541,373	13,777	7,738,554
Contingent liabilities and commitments	1,499,617	479,702	475,833	534,535	33,184	3,022,871

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37 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

	Banks and Financial Institutions	Trading and Manufacturing	Property and Construction	Services	Private Individuals	Textile	Other	Total
31 December 2017								
Cash and balances with banks and central banks	701,938	-	-	-	-	-	-	701,938
Commodity and other placements with banks, financial and other institutions	261,392	-	-	-	-	-	-	261,392
Murabaha and other financings	776,884	852,534	114,157	37,807	1,410,364	230,967	152,920	3,575,633
Musharaka financing	60,258	164,087	38,417	19,217	63,046	19,304	5,040	369,369
Investment in mudaraba	5,760	-	-	-	-	-	-	5,760
Sukuk and investment securities	1,658,688	74,980	30,036	11,313	-	962	86,906	1,862,885
Investment in associates	180,846	3,682	1,679	-	-	-	-	186,207
Restricted investment accounts	-	-	74,896	-	-	-	-	74,896
Assets acquired for leasing	525	13,068	5,753	-	328,414	-	-	347,760
Investment in real estate	-	-	247,902	-	-	-	-	247,902
Other assets	82,053	-	26,300	-	26,988	-	60,898	196,239
Assets classified as held-for-sale	478,432	-	-	-	-	-	-	478,432
Fixed assets	54,158	-	86,662	-	-	-	-	140,820
Intangible assets	162,126	-	-	-	-	-	-	162,126
Total assets	4,423,060	1,108,351	625,802	68,337	1,828,812	251,233	305,764	8,611,359
Customer current accounts	14,910	449,366	212,244	112,531	492,728	16,637	483,077	1,781,493
Due to banks, financial and other institutions	691,036	-	-	452,928	-	-	-	1,143,964
Due to investors	463,416	455,667	52,273	148,500	346,969	13,445	427,701	1,907,971
Other liabilities	132,281	10	79,511	328	69,310	-	150,205	431,645
Total liabilities	1,301,643	905,043	344,028	714,287	909,007	30,082	1,060,983	5,265,073
Equity of unrestricted investment accountholders	283,627	221,376	76,672	142,081	1,883,674	-	220,485	2,827,915
Total liabilities and equity of unrestricted investment accountholders	1,585,270	1,126,419	420,700	856,368	2,792,681	30,082	1,281,468	8,092,988
Contingent liabilities and commitments	1,204,590	1,106,593	61,459	30,574	16,220	65,345	679,188	3,163,969
31 December 2016								
Total assets	4,326,647	958,860	739,039	211,606	1,475,265	259,372	370,521	8,341,310
Total liabilities and equity of unrestricted investment accountholders	2,126,687	1,270,749	224,082	482,778	2,692,885	29,138	912,235	7,738,554
Contingent liabilities and commitments	1,410,764	718,585	254,420	35,644	424,273	131,696	47,489	3,022,871

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37 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

31 December 2017	Asia / Pacific	Middle East	Europe	North America	Others	Total
Cash and balances with banks and central banks	359,849	225,209	96,527	20,353	-	701,938
Commodity and other placements with banks, financial and other institutions	82,018	179,374	-	-	-	261,392
Murabaha and other financings	1,790,283	1,493,729	263,129	-	28,492	3,575,633
Musharaka financing	369,369	-	-	-	-	369,369
Investment in mudaraba	-	-	-	5,760	-	5,760
Sukuk and investment securities	1,644,687	208,295	5,943	3,960	-	1,862,885
Investment in associates	1,143	185,064	-	-	-	186,207
Restricted investment accounts	-	74,896	-	-	-	74,896
Assets acquired for leasing	-	347,760	-	-	-	347,760
Investment in real estate	14,221	155,246	78,435	-	-	247,902
Other assets	112,921	63,935	9,056	10,327	-	196,239
Assets classified as held-for-sale	66,966	411,466	-	-	-	478,432
Fixed assets	54,158	86,662	-	-	-	140,820
Intangible assets	13,550	148,576	-	-	-	162,126
Total assets	4,509,165	3,580,212	453,090	40,400	28,492	8,611,359
Customer current accounts	1,130,972	385,389	241,139	23,847	146	1,781,493
Due to banks, financial and other institutions	497,482	643,395	-	-	3,087	1,143,964
Due to investors	1,907,966	5	-	-	-	1,907,971
Other liabilities	195,879	225,531	10,235	-	-	431,645
Total liabilities	3,732,299	1,254,320	251,374	23,847	3,233	5,265,073
Equity of unrestricted investment accountholders	352,523	2,475,392	-	-	-	2,827,915
Total liabilities and equity of unrestricted investment accountholders	4,084,822	3,729,712	251,374	23,847	3,233	8,092,988
Contingent liabilities and commitments	2,608,341	542,427	13,201	-	-	3,163,969
31 December 2016						
Total assets	4,328,237	3,379,948	444,702	82,789	105,634	8,341,310
Total liabilities and equity of unrestricted investment accountholders	3,919,297	3,586,489	199,075	16,599	17,094	7,738,554
Contingent liabilities and commitments	2,447,329	553,408	19,776	-	2,358	3,022,871

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38 RISK MANAGEMENT
Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2017	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	341,039	-	-	-	-	360,899	701,938
Commodity and other placements with banks, financial and other institutions	82,018	179,374	-	-	-	-	261,392
Murabaha and other financings	537,870	299,787	569,756	1,363,096	805,124	-	3,575,633
Musharaka financing	70,230	56,070	96,606	113,431	33,032	-	369,369
Sukuk and investment securities	719,443	733,941	46,826	86,885	95	275,695	1,862,885
Assets acquired for leasing	28,800	-	7,632	2,613	308,715	-	347,760
Other assets	-	-	-	-	-	196,239	196,239
Total financial assets	1,779,400	1,269,172	720,820	1,566,025	1,146,966	832,833	7,315,216
Customer current accounts	-	-	-	-	-	1,781,493	1,781,493
Due to banks, financial and other institutions	808,558	116,168	187,658	17,981	13,599	-	1,143,964
Due to investors	158,633	374,027	1,302,151	73,155	5	-	1,907,971
Other liabilities	-	-	-	39,912	-	391,733	431,645
Total financial liabilities	967,191	490,195	1,489,809	131,048	13,604	2,173,226	5,265,073
Equity of unrestricted investment accountholders	1,246,504	320,604	993,781	267,026	-	-	2,827,915
Total financial liabilities and equity of unrestricted investment accountholders	2,213,695	810,799	2,483,590	398,074	13,604	2,173,226	8,092,988
Total repricing gap	(434,295)	458,373	(1,762,770)	1,167,951	1,133,362	(1,340,393)	(777,772)
31 December 2016							
Total financial assets	799,662	1,130,305	1,490,541	1,305,814	1,211,624	1,107,882	7,045,828
Total financial liabilities and equity of unrestricted investment accountholders	1,960,451	699,339	1,583,098	955,566	617,320	1,922,780	7,738,554
Total repricing gap	(1,160,789)	430,966	(92,557)	350,248	594,304	(814,898)	(692,726)

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)**Notes to the Consolidated Financial Statements for the year ended 31 December 2017**

(Expressed in thousands of United States Dollars unless otherwise stated)

39 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

- (a) Directors and companies in which they have an ownership interest.
- (b) Major shareholders of Ithmaar, Ultimate Parent and companies in which Ultimate Parent has ownership interest and subsidiaries of such companies (affiliates).
- (c) Associated companies of Ithmaar.
- (d) Senior management.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

	31 December 2017				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	431,320	-	12,809	-	444,129
Sukuk and investment securities	-	68,234	-	-	68,234
Investment in associates	-	186,207	-	-	186,207
Other assets	-	10,456	-	466	10,922
Assets classified as held-for-sale	-	478,432	-	-	478,432
Liabilities					
Customers' current accounts	-	81,863	-	918	82,781
Due to banks, financial and other institutions	-	51,667	-	-	51,667
Equity of unrestricted investment accounts	28,287	18,999	540	2,213	50,039
Other liabilities	40,089	-	-	-	40,089
Income					
Return to unrestricted investment accounts	803	779	20	-	1,602
Income from murabaha and other financings	4,213	-	-	-	4,213
Share of profit/(loss) after tax from associates	-	22,995	-	-	22,995
Other income	-	1,171	-	-	1,171
Profit paid to banks, financial and other institutions – net	-	1,342	-	-	1,342
Expenses					
Administrative and general expenses	825	-	-	-	825

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)**Notes to the Consolidated Financial Statements for the year ended 31 December 2017**

(Expressed in thousands of United States Dollars unless otherwise stated)

39 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	31 December 2016				
	Shareholders & Affiliates	Associates and other investments	Directors and related entities	Senior management	Total
Assets					
Murabaha and other financings	342,775	-	12,809	-	355,584
Sukuk and investment securities	9,778	-	-	-	9,778
Investment in associates	-	668,403	-	-	668,403
Other assets	82,989	10,456	-	137	93,582
Liabilities					
Customers' current accounts	-	20,502	-	432	20,934
Due to banks, financial and other institutions	-	33,813	-	-	33,813
Equity of unrestricted investment accounts	23,249	22,640	541	1,276	47,706
Other liabilities	2,134	54	-	-	2,188
Income					
Return to unrestricted investment accounts	-	-	-	-	-
Income from murabaha and other financings	3,639	-	-	-	3,639
Share of profit/(loss) after tax from associates	-	46,481	-	-	46,481
Other income	-	3,874	-	-	3,874
Profit paid to banks, financial and other institutions – net	-	1,342	-	-	1,342
Expenses					
Administrative and general expenses	838	-	-	-	838

Certain collaterals amounting to \$411 million with respect to certain financing facilities are legally held by related parties for the beneficial interest of the Group.

40 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and;
- To maintain a strong capital base to support the development of its business.

The Group does not engage in any banking activity at solo level, hence Basel III requirements are not applicable. The Group complies with CBB directives with respect to its investment firm category 1 license.

41 PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2017 (31 December 2016: Nil).

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)**Notes to the Consolidated Financial Statements for the year ended 31 December 2017**

(Expressed in thousands of United States Dollars unless otherwise stated)

42 NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2017	31 December 2016
INCOME		
Group's share of income from funds under management	68	81
Income from other financings	132,290	122,278
Share of profit after tax from associates - note (i)	19,190	43,706
Income from investments	116,506	134,431
Other income	30,324	28,851
Gross income	298,378	329,347
Less: profit paid to banks, financial and other institutions (net) - note (ii)	(119,750)	(116,055)
Total income	178,628	213,292
EXPENSES		
Administrative and general expenses - note (ii)	(95,977)	(95,761)
Depreciation and amortisation	(17,324)	(20,602)
Total expenses	(113,301)	(116,363)
Net income before provision for impairment and overseas taxation	65,327	96,929
Provision for impairment (net)	(10,831)	(9,268)
Net income before overseas taxation	54,496	87,661
Overseas taxation	(25,989)	(21,619)
NET INCOME FOR THE YEAR	28,507	66,042
Attributable to:		
Equity holders of the Bank	18,209	54,906
Minority interests	10,298	11,136
	28,507	66,042
Basic and diluted earnings per share	US Cts 0.63	US Cts 1.89

Note (i) – The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 197 (2016: 146 branches) out of total 404 branches (2016: 354 branches).

43 COMPARATIVES

Certain comparatives figures have been reclassified to conform to the current year presentation.