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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)
Consolidated financial statements for the year ended 31 December 2016

Contents

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 2016 until 31 December 2016, corresponding to the Period from 21 Rabi Al-Awwal 1437 H until 2 Rabi Al-Thany 1438 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. (formerly Ithmaar Bank B.S.C.) ("Ithmaar") performed the following acts during the financial year from 1 January 2016 until 31 December 2016:

1. Issued fatwas and Sharia resolutions related to Ithmaar's products and activities and followed them up through Ithmaar's Internal Sharia Audit Department while also guiding different departments towards Sharia-compliant transactions.

2. Studied different mechanisms of financing, investing and different mudaraba investments and prepare its documents with the concerned departments that develop and present products.

3. Examined transactions made in the books and records through the Internal Sharia Compliance Department and audited 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 periodic Sharia reports which are published by the Internal Sharia Audit Department.

We have reviewed the principles and contracts relating to transactions and products launched by Ithmaar during the period from 1 January 2016 to 31 December 2016. 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 and accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Our responsibility is to express an independent opinion based on our observation of Ithmaar's operations, and prepare a report.

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 investment and financing activities and banking services 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. Gains made from sources prohibited by Sharia were identified and transferred to the Charity Fund for activities related to Ithmaar's operations. And for non-sharia compliant income related to investments, these have been identified, disclosed and published to the shareholders in Note 41 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.

ii: Conventional assets and liabilities transferred from former Ithmaar Bank before restructuring:

The Sharia Supervisory Board identified and reviewed the total conventional assets and liabilities that existed in former Ithmaar Bank B.S.C before restructuring and issued a Fatwa that allows Ithmaar to convert these assets and liabilities into Islamic alternatives, or dispose them, in an agreed time period, provided that Ithmaar appropriately discloses to its shareholders in its annual report all amounts of income and expenses associated with these conventional assets and liabilities. This Fatwa conforms to the provisions of Sharia Standard – 6 "Conversion of a Conventional Bank to an Islamic Bank" of AAOIFI Sharia Standards. The Sharia Supervisory Board confirms that the management, with the grace of Allah, has resolved all Sharia issues pertaining to 14 out of 21 assets and Ithmaar is in the process of disposing the remaining assets in accordance to these standards.

Although the period fixed by the Sharia Supervisory Board to dispose of these assets and liabilities either through selling it or converting it to Islamic alternatives expired by the end of the financial year 2016, Ithmaar has been converted into a holding company. 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) (IB Capital), 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. And 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 2016 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities in Note 41. 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 1.89 US cents per share.

We pray to Almighty Allah to grant success to Ithmaar and its employees and guide them in developing Islamic products and services and continue to comply with the Sharia principles and to 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 2016

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 2016, 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 erstwhile 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, involved Ithmaar Holding retains 100 percent ownership of all assets previously owned by Ithmaar Bank, 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 2016, 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 profit of $3.3 million for 2016 attributable to the equity shareholders of the Group, as compared to a net loss of $60.8 million for 2015. Total assets at 31 December 2016 amounted to $8,341.3 million (31 December 2015: $8,138.6 million).

The consolidated Capital adequacy ratio of Ithmaar under Basel III as at 31 December 2016 was 13.02% (31 December 2015: 12.81%) as compared to a minimum regulatory requirement of 12.5% (31 December 2015: 12.5%). The Group's risk weighted exposures and eligible capital are set out in note 39 of the accompanying consolidated financial statements.

Directors

The following served as Directors of Ithmaar during the year ended 31 December 2016:

HRH Prince Amr Mohamed Al Faisal (Chairman)
Mr. Khalid Abdulla-Janahi
Tunku Yaacob Khyra
Mr. Abdel Hamid Abo Moussa
Sheikha Hissah Bint Saad Al-Sabah
Sheikh Zamil Abdullah Al-Zamil
Mr. Nabeel Khalid Kanoo
Mr. Mohammed Bucheerei
Mr. Abdulellah Ebrahim Al-Qassimi
Mr. Omar Abdi Ali
Dr. Amani Khaled Bouresli (Appointed with effect from 28 March 2016)
Mr. Abdulshakoor Hussain Tahlak (Appointed with effect from 28 March 2016)
Mr. Imtiaz Ahmad Pervez (Resigned with effect from 28 March 2016)
Mr. Graham R. Walker (Resigned with effect from 28 March 2016)

Directors' sitting fees

Directors' sitting fees for 2016 amounted to $423,500 (2015: $291,500).

Interests of Directors

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

	Number of Shares	
Name	**31 December 2016**	**31 December 2015**
HRH Prince Amr Mohamed Al Faisal	106,100	106,100
Mr. Khalid Abdulla-Janahi	20,749,693	20,749,693
Tunku Yaacob Khyra	106,100	106,100
Mr. Abdel Hamid Abo Moussa	106,100	106,100
Sheikha Hissah Bint Saad Al-Sabah	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. Abdulellah Ebrahim Al-Qassimi	106,100	106,100
Mr. Omar Abdi Ali	-	-
Dr. Amani Khaled Bouresli (Appointed with effect from 28 March 2016)	-	-
Mr. Abdulshakoor Hussain Tahlak (Appointed with effect from 28 March 2016)	-	-
Mr. Imtiaz Ahmad Pervez (Resigned with effect from 28 March 2016)	-	-
Mr. Graham R. Walker (Resigned with effect from 28 March 2016)	1,056,000	1,056,000

Dividend

No dividend has been proposed for 2016 (2015: Nil).

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of Ithmaar for the year ending 31 December 2017.

By order of the Board of Directors

HRH Prince Amr Mohamed Al Faisal
Chairman
27 February 2017

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

Report on the 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 2016 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 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 the operation of Ithmaar in accordance with Islamic Shari'a 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 presentation of the consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our audit 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 2016 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.

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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 report of the directors 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 the 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;

(iv) satisfactory explanations and information have been provided to us by the management in response to all our requests; and

(v) Ithmaar has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

PricewaterhouseCoopers

Partner's Registration No: 201
27 February 2017
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 2016 (Audited)	At 31 December 2015 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	736,033	590,409
Commodity and other placements with banks, financial and other institutions	4	142,607	270,820
Murabaha and other financings	5	3,444,588	3,399,770
Musharaka financing		229,960	149,673
Investment in mudaraba	6	14,425	21,348
Investment in associates	7	668,403	655,388
Sukuk and investment securities	8	1,874,782	1,919,430
Restricted investment accounts	9	79,852	78,651
Assets acquired for leasing	10	256,204	169,482
Investment in real estate	11	242,594	256,493
Other assets	12	361,654	319,437
Fixed assets	13	112,981	112,389
Intangible assets	14	177,227	195,351
Total assets		**8,341,310**	**8,138,641**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	15	1,581,113	1,436,335
Due to banks, financial and other institutions	16	1,141,513	1,639,871
Due to investors	17	1,903,612	1,752,626
Other liabilities	18	342,622	320,011
Total liabilities		**4,968,860**	**5,148,843**
Equity of unrestricted investment accountholders	19	2,769,694	2,397,957
Minority interest	20	175,341	177,618
Total liabilities, equity of unrestricted investment accountholders and minority interest		**7,913,895**	**7,724,418**
Share capital	21	757,690	757,690
Treasury shares	21	(27,802)	(30,149)
Reserves		218,460	210,894
Accumulated losses		(520,933)	(524,212)
Total owners' equity		**427,415**	**414,223**
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		**8,341,310**	**8,138,641**

These consolidated financial statements were approved by the Board of Directors on 27 February 2017 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal	Dr. Amani Khaled Bouresli	Ahmed Abdul Rahim
Chairman	Director	CEO

The notes 1 to 42 on pages 16 to 56 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 2016 (Audited)	Year ended 31 December 2015 (Audited)
INCOME			
Income from unrestricted investment accounts		109,951	95,036
Less: return to unrestricted investment accounts and impairment provisions	29	(80,231)	(69,143)
Group's share of income from unrestricted investment accounts as a Mudarib		29,720	25,893
Group's share of income from restricted investment accounts as a Mudarib	23	81	164
Income from murabaha and other financings	24	152,372	187,092
Share of profit after tax from associates	7	46,481	33,058
Income from other investments	25	143,246	179,456
Other income	26	53,991	52,687
Total income		**425,891**	**478,350**
Less: profit paid to banks, financial and other institutions – net		(163,743)	(209,981)
Operating income		**262,148**	**268,369**
EXPENSES			
Administrative and general expenses	27	(162,614)	(160,620)
Depreciation and amortization	7,13,14	(29,489)	(29,791)
Total expenses		**(192,103)**	**(190,411)**
Net income before provision for impairment and overseas taxation		**70,045**	**77,958**
Provision for impairment – net	29	(33,302)	(95,025)
Net income/(loss) before overseas taxation		**36,743**	**(17,067)**
Overseas taxation	30	(22,945)	(29,328)
NET PROFIT/(LOSS) FOR THE YEAR		**13,798**	**(46,395)**
Attributable to:			
Equity holders of the Bank		3,279	(60,797)
Minority interests	20	10,519	14,402
		13,798	**(46,395)**
Basic and diluted earnings per share	22	**US Cts 0.11**	**US Cts (2.09)**

These consolidated financial statements were approved by the Board of Directors on 27 February 2017 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 42 on pages 16 to 56 form an integral part of the consolidated financial statements.

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								
	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	Total owners' equity
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 21)	-	2,347	(1,030)	-	-	-	-	-	**(1,030)**	-	**1,317**
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**	**38,090**	**50,727**	**25,711**	**2,648**	**(47,378)**	**218,460**	**(520,933)**	**427,415**

The notes 1 to 42 on pages 16 to 56 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 2015
(Expressed in thousands of United States Dollars unless otherwise stated)

			Reserves								
	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	Total owners' equity
At 1 January 2015 (Audited)	**757,690**	**(30,149)**	**149,692**	**38,090**	**50,727**	**45,436**	**457**	**(25,142)**	**259,260**	**(463,415)**	**523,386**
Net loss for the year	-	-	-	-	-	-	-	-	-	(60,797)	**(60,797)**
Movement in fair value of sukuk											
and investment securities	-	-	-	-	-	(5,031)	-	-	**(5,031)**	-	**(5,031)**
Movement in fair value								-	-		-
investment in real estate	-	-	-	-	-	-	1,033	-	**1,033**	-	**1,033**
Movement in fair value of associates	-	-	-	-	-	(31,134)	-	-	**(31,134)**	-	**(31,134)**
Foreign currency translation											
adjustments	-	-	-	-	-	(59)	96	(13,271)	**(13,234)**	-	**(13,234)**
At 31 December 2015 (Audited)	**757,690**	**(30,149)**	**149,692**	**38,090**	**50,727**	**9,212**	**1,586**	**(38,413)**	**210,894**	**(524,212)**	**414,223**

The notes 1 to 42 on pages 16 to 56 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 2016 (Audited)	31 December 2015 (Audited)
OPERATING ACTIVITIES			
Net income/(loss) before overseas taxation		36,743	(17,067)
Adjustments for:			
Depreciation and amortization	7,13,14	29,489	29,791
Share of profit after tax from associates	7	(46,481)	(33,058)
Provision for impairment – net	29	33,302	95,025
Gain on sale of fixed assets	26	(877)	(1,259)
Operating income before changes in operating assets and liabilities		52,176	73,432
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		113,110	(64,534)
(Increase)/decrease in operating assets:			
Murabaha and other financings		(56,878)	(20,628)
Musharaka financing		(79,243)	(64,465)
Other assets		(51,564)	(69,319)
Increase/(decrease) in operating liabilities:			
Customers' current accounts		139,577	99,724
Due to banks, financial and other institutions		(501,758)	196,955
Due to investors		140,885	37,691
Other liabilities		16,514	43,646
Increase in equity of unrestricted investment accountholders		370,840	197,178
Net cash provided by operating activities		**143,659**	**429,680**
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Investment in mudaraba		6,923	(707)
Investment in associates		-	7,539
Investment in restricted investment accounts		(1,129)	(8,645)
Assets acquired for leasing		(86,722)	(95,909)
Sukuk and investment securities		57,236	(247,912)
Dividend received from associates	7	18,202	14,513
Purchase of fixed assets		(4,724)	(3,744)
Net cash used in investing activities		**(10,214)**	**(334,865)**
FINANCING ACTIVITIES			
Taxes paid		(14,791)	(15,440)
Minority interest		(12,490)	(7,957)
Net cash used in financing activities		**(27,281)**	**(23,397)**
Foreign currency translation adjustments		24,123	(5,693)
Net increase in cash and cash equivalents		**130,287**	**65,725**
Cash and cash equivalents at the beginning of the year		**586,495**	**520,770**
Cash and cash equivalents at the end of the year	4	**716,782**	**586,495**

The notes 1 to 42 on pages 16 to 56 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 / (Withdrawals)	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 42 on pages 16 to 56 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 2015

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

	At 1 January 2015	Income / (Expenses)	Mudarib's Fee	Fair value movements	Net Deposits / (Withdrawals)	At 31 December 2015
Dilmunia Development Fund I L.P.*	160,813	(564)	-	-	(10,349)	149,900
Shamil Bosphorus Modaraba*	6,250	-	-	-	-	6,250
European Real Estate Portfolio*	18,514	-	-	(1,873)	-	16,641
US Development Opportunities Fund*	3,268	-	-	-	(3,268)	-
European Real Estate Placements*	20,415	39	(25)	(2,182)	(1,465)	16,782
US Real Estate Placements*	47,865	-	(50)	5,474	(25,224)	28,065
Listed and non-listed equities	57,339	7,362	(89)	12,593	-	77,205
TOTAL	314,464	6,837	(164)	14,012	(40,306)	294,843
FUNDS MANAGED ON AGENCY BASIS	65,247	-	-	-	(17)	65,230
	379,711	**6,837**	**(164)**	**14,012**	**(40,323)**	**360,073**

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

The notes 1 to 42 on pages 16 to 56 form an integral part of the consolidated financial statements.

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 the year, 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 supervised 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 and Kuwait Boursa.

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, 18 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned			
	Voting	**Economic**	**Country of Incorporation**	**Principal business activity**
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 2016 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 41.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2016.

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

(ia) New accounting standard: Issued and effective

FAS 27 - Investment accounts
FAS 27 Investments accounts was issued in December 2014 replacing FAS 5 – 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 – 'Equity of Investment Account Holders and their Equivalent'. The adoption of this standard expanded the disclosures related to equity of Investment Account Holders. The standard had no significant impact on the consolidated financial statements of the Group.

(ib) New accounting standards: Issued but not yet effective
There are no new AAOIFI accounting standards, amendments to standards and interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that would be expected to have material impact on the Group.

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.

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). 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, 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

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 or equity of unrestricted investment accountholders 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) 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.

(l) 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)

(m) 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 or by using the projected unit credit method as appropriate. Costs to be recognised under the projected unit credit method are estimated based on the advice of qualified actuaries. Actuarial gains and losses are spread over the average remaining service lives of the employees until the benefits become vested.

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.

(n) Due to investors

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

(o) 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.

(p) Restricted investment accounts

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

(q) 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.

(r) 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)

(s) 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)

(t) 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.

(u) 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.

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

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	161,858	-	161,858	161,064	-	161,064
Cash and balances with banks and central banks	551,069	23,106	574,175	402,387	26,958	429,345
	712,927	**23,106**	**736,033**	**563,451**	**26,958**	**590,409**

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

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	142,607	-	142,607	278,359	-	278,359
Less: Provisions	-	-	-	(7,539)	-	(7,539)
	142,607	**-**	**142,607**	**270,820**	**-**	**270,820**

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

	31 December 2016			31 December 2015		
	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	712,927	23,106	736,033	563,451	26,958	590,409
Commodity and other placements with banks, financial and other institutions - net	142,607	-	142,607	270,820	-	270,820
Less: Placement maturing after ninety days	-	-	-	(113,670)	-	(113,670)
Less: Balances with central bank relating to minimum reserve requirement	(161,858)	-	(161,858)	(161,064)	-	(161,064)
	693,676	**23,106**	**716,782**	**559,537**	**26,958**	**586,495**

The movement in provisions is as follows:

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	7,539	-	7,539	6,779	-	6,779
Charge for the year	-	-	-	760	-	760
Utilised during the year	(6,878)	-	(6,878)	-	-	-
Exchange differences and other movements	(661)	-	(661)	-	-	-
At 31 December	**-**	**-**	**-**	**7,539**	**-**	**7,539**

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

5 MURABAHA AND OTHER FINANCINGS

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	2,329,617	1,423,518	3,753,135	2,268,833	1,479,853	3,748,686
Less: Provisions	(289,394)	(19,153)	(308,547)	(298,650)	(50,266)	(348,916)
	2,040,223	**1,404,365**	**3,444,588**	**1,970,183**	**1,429,587**	**3,399,770**

Other financings represents conventional loans and advances totalling $1,647 million (31 December 2015: $1,537 million) made by a subsidiary of Ithmaar.

The movement in provisions is as follows:

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	298,650	50,266	348,916	268,357	54,552	322,909
Charge for the year	33,618	5,550	39,168	54,564	7,074	61,638
Write back during the year	(13,042)	-	(13,042)	(14,147)	-	(14,147)
Utilised during the year	(26,224)	(36,826)	(63,050)	(3,304)	(11,261)	(14,565)
Transfer to Investment Risk Reserve	(4,046)	-	(4,046)	-	-	-
Exchange differences and other movements	438	163	601	(6,820)	(99)	(6,919)
At 31 December	**289,394**	**19,153**	**308,547**	**298,650**	**50,266**	**348,916**

Total provision of $308.5 million (31 December 2015: $348.9 million) includes general provision of $13.8 million (31 December 2015: $11.8 million).

6 INVESTMENT IN MUDARABA

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Mudaraba investments	733	26,006	26,739	5,854	27,929	33,783
Less : Provisions	(733)	(11,581)	(12,314)	(854)	(11,581)	(12,435)
	-	**14,425**	**14,425**	**5,000**	**16,348**	**21,348**

Certain assets totalling $14.4 million (31 December 2015: $16.3 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provisions is as follows:

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	854	11,581	12,435	854	14,788	15,642
Utilised during the year	-	-	-	-	(3,207)	(3,207)
Exchange differences and other movements	(121)		(121)	-	-	-
At 31 December	**733**	**11,581**	**12,314**	**854**	**11,581**	**12,435**

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

7 INVESTMENT IN ASSOCIATES

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

Name of company	2016	% of Share-holding	2015	% of Share-holding	Country	Activity
Unlisted:						
Solidarity Group Holding B.S.C. (C)	68,076	36	64,494	36	Bahrain	Takaful
Citic International Assets Management Limited	74,588	20	75,113	20	Hong Kong	Asset management
Sanpak Engineering Industries (Pvt) Limited	536	31	482	31	Pakistan	Manufacturing
Misr Company for Packing Materials "Egywrap"	2,224	23	4,688	23	Egypt	Trading
Faysal Asset Management Limited	441	30	649	30	Pakistan	Asset management
Ithraa Capital Company	3,858	23	4,640	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	107,775	30	100,963	30	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	1,679	40	1,679	40	Bahrain	Real estate
Islamic Trading Company E.C	669	24	669	24	Bahrain	Trading
Listed:						
BBK B.S.C	408,557	25	402,011	25	Bahrain	Banking
	668,403		**655,388**			

Investment in associates include conventional investments totalling $590.9 million (31 December 2015: $578.1 million).

During July 2015, Solidarity Group Holding B.S.C. (C) repaid 10% of its share capital to shareholders and cancelled its treasury shares. As a result, the Group's holding increased to 36.3% from 33.8%.

The Group's share of net assets of its associated companies includes the following movements analysed as follows:

	31 December 2016	31 December 2015
At 1 January	655,388	684,821
Share of profit before tax	46,367	34,866
Share of tax	114	(1,808)
Dividends received	(18,202)	(14,513)
Share of fair value reserve	(1,739)	(31,134)
Disposals	-	(7,539)
Amortisation of intangibles	(6,748)	(6,748)
Appropriations	(3,698)	-
Exchange differences	(3,079)	(2,557)
At 31 December	**668,403**	**655,388**

Investment in associates includes $408.6 million (31 December 2015: $402 million) pledged as collateral against borrowings (note 16) with the terms and conditions in the ordinary course of business.

Certain assets totalling $2.2 million (31 December 2015: $4.7 million) included above are held by third parties as nominee on behalf of the Group.

Included in investment in associates at 31 December 2016 is $76.9 million (31 December 2015: $76.9 million) of goodwill. The movement is as follows:

	31 December 2016	31 December 2015
At 1 January	76,939	76,939
Provision	-	-
At 31 December	**76,939**	**76,939**

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

7 INVESTMENT IN ASSOCIATES (continued)

Amortisation charge for the intangible assets for the year ended 31 December 2016 amounted to $6.7 million (31 December 2015: $6.7 million)

Summarised financial position of associates that have been equity accounted:

	31 December 2016	31 December 2015
Total assets	14,176,938	10,799,588
Total liabilities	11,589,096	8,824,626
Total revenues	413,721	429,661
Total net profit	166,421	177,749

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

8 SUKUK AND INVESTMENT SECURITIES

	31 December 2016			31 December 2015		
	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						
Held for trading						
Debt-type instruments – unlisted	16,606	-	16,606	61,837	-	61,837
Equity-type securities – listed	-	-	-	4,417	-	4,417
	16,606	**-**	**16,606**	**66,254**	**-**	**66,254**
Investment securities at fair value through equity						
Equity-type securities – listed	57,401	-	57,401	49,632	-	49,632
Equity-type securities – unlisted	227,689	78,829	306,518	216,687	79,829	296,516
	285,090	78,829	363,919	266,319	79,829	346,148
Provision for impairment	(147,539)	(5,700)	(153,239)	(142,575)	(5,700)	(148,275)
	137,551	**73,129**	**210,680**	**123,744**	**74,129**	**197,873**
Investment securities carried at amortised cost						
Sukuk – unlisted	185,301	-	185,301	102,454	-	102,454
Other debt-type instruments – listed	74,201	-	74,201	6,906	-	6,906
Other debt-type instruments – unlisted	1,408,059	-	1,408,059	1,566,167	-	1,566,167
	1,667,561	-	1,667,561	1,675,527	-	1,675,527
Provision for impairment	(20,065)	-	(20,065)	(20,224)	-	(20,224)
	1,647,496	**-**	**1,647,496**	**1,655,303**	**-**	**1,655,303**
	1,801,653	**73,129**	**1,874,782**	**1,845,301**	**74,129**	**1,919,430**

Sukuk and investment securities include conventional investments totalling $1,490.1 million (31 December 2015: $1,549.6 million) made by a subsidiary of Ithmaar.

Perpetual Convertible Bonds issued during the year by an associate totaling $68.2 million (31 December 2015: $Nil) are included under Other debt-type instruments – listed

The fair value of investment securities carried at amortised cost was $1,650.4 million (31 December 2015: $1,674.6 million) and these are tradable

Certain assets totalling $10.4 million (31 December 2015: $12.8 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 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	162,799	5,700	168,499	121,686	5,756	127,442
Charge for the year	7,013	-	7,013	46,203	-	46,203
Write back during the year	(637)	-	(637)	(1,652)	-	(1,652)
Utilised during the year	(578)	-	(578)	(1,175)	(56)	(1,231)
Exchange differences and other movements	(993)	-	(993)	(2,263)	-	(2,263)
At 31 December	**167,604**	**5,700**	**173,304**	**162,799**	**5,700**	**168,499**

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

8 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 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**

	Level 1	Level 2	Level 3	Total
At 31 December 2015				
Investment securities at fair value through income statement				
Debt-type instruments	-	61,837	-	61,837
Equity securities	4,417	-	-	4,417
Investment securities at fair value through equity				
Equity securities	44,795	-	153,078	197,873
	49,212	**61,837**	**153,078**	**264,127**

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

8 SUKUK AND INVESTMENT SECURITIES (continued)

Reconciliation of Level 3 Items

	Investment securities at fair value through equity	
	2016	**2015**
At 1 January	**153,078**	**205,941**
Total gains/(losses) recognised in		
- Income statement	(5,934)	(40,026)
- Equity	12,327	(7,738)
Purchases	-	275
Sales	(1,133)	(6,546)
Reallocation	-	1,172
At 31 December	**158,338**	**153,078**
Total gains for the year included in consolidated income statement for 31 December	2,272	2,652

9 RESTRICTED INVESTMENT ACCOUNTS

	31 December 2016			31 December 2015		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Investment in restricted investment accounts	103,253	43,876	147,129	101,752	44,248	146,000
Less: provisions	(58,651)	(8,626)	(67,277)	(58,723)	(8,626)	(67,349)
	44,602	**35,250**	**79,852**	**43,029**	**35,622**	**78,651**

The movement in provisions is as follows:

	31 December 2016			31 December 2015		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
At 1 January	58,723	8,626	67,349	58,509	8,626	67,135
Charge for the year	-	-	-	-	-	-
Exchange differences and other movements	(72)	-	(72)	214	-	214
At 31 December	**58,651**	**8,626**	**67,277**	**58,723**	**8,626**	**67,349**

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

10 ASSETS ACQUIRED FOR LEASING

	31 December 2016			31 December 2015		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	293,284	(37,080)	256,204	230,690	(61,208)	169,482

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

	31 December 2016	31 December 2015
Relating to owners	9,553	14,773
Relating to unrestricted investment accounts	246,651	154,709
	256,204	169,482

11 INVESTMENT IN REAL ESTATE

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	261,623	-	261,623	273,775	-	273,775
Less: provisions	(19,029)	-	(19,029)	(17,282)	-	(17,282)
	242,594	**-**	**242,594**	**256,493**	**-**	**256,493**

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

Certain assets totalling $1.2 million (31 December 2015: $63.4 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 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	17,282	-	17,282	23,258	-	23,258
Charge for the year	2,900	-	2,900	-	-	-
Write back during the year	-	-	-	(1,634)	-	(1,634)
Utilised during the year	-	-	-	(2,450)	-	(2,450)
Exchange differences and other movements	(1,153)	-	(1,153)	(1,892)	-	(1,892)
At 31 December	**19,029**	**-**	**19,029**	**17,282**	**-**	**17,282**

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

12 OTHER ASSETS

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	167,614	88,592	256,206	174,164	47,916	222,080
Due from related parties	93,582	-	93,582	96,236	-	96,236
Taxes – deferred	29,800	-	29,800	41,830	-	41,830
Taxes – current	20,185	-	20,185	16,369	-	16,369
Assets acquired against claims	18,529	-	18,529	17,251	-	17,251
	329,710	88,592	418,302	345,850	47,916	393,766
Provision for impairment	(44,685)	(11,963)	(56,648)	(62,141)	(12,188)	(74,329)
	285,025	**76,629**	**361,654**	**283,709**	**35,728**	**319,437**

The movement in provisions is as follows:

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	62,141	12,188	74,329	77,763	27,122	104,885
Charge for the year	866	-	866	6,741	-	6,741
Write back during the year	(915)	-	(915)	(811)	-	(811)
Utilised during the year	(18,629)	(63)	(18,692)	(18,253)	(15,033)	(33,286)
Exchange differences and other movements	1,222	(162)	1,060	(3,299)	99	(3,200)
At 31 December	**44,685**	**11,963**	**56,648**	**62,141**	**12,188**	**74,329**

13 FIXED ASSETS

	Relating to owners							
	31 December 2016				31 December 2015			
	Cost	Accumulated depreciation	Provision for impairment	Net book amount	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	106,633	(13,256)	(2,804)	90,573	110,391	(12,812)	(2,804)	94,775
Leasehold improvements	29,845	(21,544)	-	8,301	25,151	(20,336)	-	4,815
Furniture and equipment	75,045	(62,033)	-	13,012	75,184	(63,997)	-	11,187
Motor vehicles	3,240	(2,145)	-	1,095	3,688	(2,076)	-	1,612
	214,763	**(98,978)**	**(2,804)**	**112,981**	**214,414**	**(99,221)**	**(2,804)**	**112,389**

Depreciation charge for the year ended 31 December 2016 amounted to $5.9 million (31 December 2015: $6.4 million)

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

14 INTANGIBLE ASSETS

	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**

	Relating to owners				
					31 December 2015
	Cost	**Accumulated amortisation**	**Provision for impairment**	**Exchange differences**	**Net book amount**
Goodwill	87,830	-	(5,000)	(9,231)	73,599
Customer relations	113,565	(49,512)	-	(11,110)	52,943
Core deposits	155,546	(72,918)	-	(20,324)	62,304
Others	27,848	(21,124)	-	(219)	6,505
	384,789	**(143,554)**	**(5,000)**	**(40,884)**	**195,351**

Amortisation charge for the year ended 31 December 2016 amounted to $16.8 million (31 December 2015: $16.7 million)

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

	31 December 2016	**31 December 2015**
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.

15 CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balance relating to a counterparty amounting to $187.8 million (31 December 2015: $196.3 million which was subject to sanctions under US, EU and UN measures).

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

16 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	1,107,700	-	1,107,700	1,480,579	-	1,480,579
Due to financial and other institutions	33,813	-	33,813	159,292	-	159,292
	1,141,513	**-**	**1,141,513**	**1,639,871**	**-**	**1,639,871**

Due to banks, financial and other institutions include balances totalling $417.2 million from two counterparties (31 December 2015: $417 million which were subject to sanctions under US, EU and UN measures) and having contractual maturity ranging to up to one month.

Due to banks include short and medium term borrowings by the Group under bilateral and multilateral arrangement with maturities ranging from one year to three years.

Due to banks, financial and other institutions include conventional deposits totalling $505.2 million (31 December 2015: $766.7 million), accepted by a subsidiary of Ithmaar.

At 31 December 2016, there were collateralized borrowings in aggregate $134.5 million (31 December 2015: $151 million).

Cash dividends amounting to $14.6 million (31 December 2015: $11.1 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.

17 DUE TO INVESTORS

	Relating to owners	
	31 December 2016	31 December 2015
Due to corporate institutions	1,153,623	1,024,104
Due to individuals	668,559	657,365
Due to financial institutions	81,430	71,157
	1,903,612	**1,752,626**

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

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

18 OTHER LIABILITIES

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	239,779	95,648	335,427	240,132	63,787	303,919
Due to related parties	2,188	-	2,188	10,844	-	10,844
Provision for taxation – current	1,006	-	1,006	831	-	831
Provision for taxation – deferred	4,001	-	4,001	4,417	-	4,417
	246,974	**95,648**	**342,622**	**256,224**	**63,787**	**320,011**

19 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 2016	31 December 2015
Cash and balances with banks and central banks		23,106	26,958
Murabaha and other financings	5	1,404,365	1,429,587
Investment in mudaraba	6	14,425	16,348
Musharaka financing		211,926	148,128
Investment in associates	7	4,340	4,340
Sukuk and investment securities	8	73,129	74,129
Restricted investment accounts	9	35,250	35,622
Assets acquired for leasing	10	246,651	154,709
Other assets	12	76,629	35,728
Due from the Bank		775,521	536,195
		2,865,342	2,461,744
Other liabilities	18	(95,648)	(63,787)
Equity of unrestricted investment accountholders		**2,769,694**	**2,397,957**

The movement in investments fair value reserve (included in URIA) is as follows:

	31 December 2016	31 December 2015
At 1 January	9,292	9,292
Net movement during the year	-	-
At 31 December	**9,292**	**9,292**

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

19 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to $57 million (31 December 2015: $88.4 million). The movement of impairment provisions relating to unrestricted investment accountholders has been disclosed in note 29.

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

	31 December 2016	31 December 2015
At 1 January	12,547	7,548
Net addition during the year	5,001	4,999
At 31 December	**17,548**	**12,547**

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

	31 December 2016	31 December 2015
At 1 January	8,804	2,915
Net addition during the year	5,000	5,889
Transfer from general provision (note 29)	4,046	-
At 31 December	**17,850**	**8,804**

The average gross rate of return in respect of unrestricted investment accounts was 4.7% for 31 December 2016 (31 December 2015: 4.5%) of which 2.8% (31 December 2015: 2.7%) 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.

20 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 2016		31 December 2015	
	Minority %		Minority %	
Faysal Bank Limited	33	109,780	33	99,996
Health Island B.S.C. (C)	50	63,176	50	68,823
Cityview Real Estate Development B.S.C. (C)	49	(2,694)	49	1,602
Sakana Holistic Housing Solutions B.S.C. (C)	50	5,079	50	7,197
		175,341		**177,618**

Minority interest in the consolidated income statement of $10.5 million (31 December 2015: $14.4 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

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

21 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	(120,595)	(30,149)
At 31 December 2015 (Audited)	**2,910,160**	**727,541**
Issued and fully paid		
Total outstanding as at 1 January 2016	3,030,755	757,690
Treasury shares *	(111,207)	(27,802)
At 31 December 2016 (Audited)	**2,919,548**	**729,888**

Ithmaar's total issued and fully paid share capital at 31 December 2016 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 and on Boursa Kuwait in Kuwaiti Dinars.

Ithmaar owned 111,207,124 of its own shares at 31 December 2016 (31 December 2015: 120,594,984). The shares are held as treasury shares and the Bank has the right to reissue these shares at a later date.

*** Employee Share Incentive Scheme**
At the annual general meeting for the year ended 2014 which was held on 31 March 2015, and in pursuant to CBB's Sound Remuneration Practices, the Employee Share Incentive Scheme (the "Scheme") was approved. As a result, 9.4 million shares (2015: 3.6 million shares) were transferred from treasury shares towards the Scheme.

22 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 2016	31 December 2015
Net loss attributable to shareholders ($ '000)	3,279	(60,797)
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	**0.11**	**(2.09)**

Earnings per share on non-sharia compliant income and expenses is included under note 41.

23 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.

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

24 INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	31 December 2016	31 December 2015
Income from murabaha financing	12,500	16,880
Income from musharaka financing	17,594	12,930
Income from other financings	122,278	157,282
	152,372	**187,092**

25 INCOME FROM OTHER INVESTMENTS

	Relating to owners	
	31 December 2016	31 December 2015
Income from investment securities at amortised cost	118,262	138,342
Income from investment securities at fair value through equity	5,331	4,127
Income from investment securities at fair value through income statement	15,496	27,044
Income from investment in real estate	4,157	9,943
	143,246	**179,456**

26 OTHER INCOME

	Relating to owners	
	31 December 2016	31 December 2015
Income from banking services	48,531	40,762
Foreign exchange income	4,423	6,330
Gain on disposal of fixed assets	877	1,259
Income from fees and commissions	160	4,336
	53,991	**52,687**

27 ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2016	31 December 2015
Salaries and other benefits	79,148	77,097
Office expenses	43,023	48,169
Professional fees	12,640	13,047
Other administrative expenses	27,803	22,307
	162,614	**160,620**

28 SOCIAL RESPONSIBILITY

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

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

29 PROVISIONS

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	686,320	88,361	774,681	630,538	110,844	741,382
Charge for the year	47,897	5,550	53,447	113,267	7,074	120,341
Write back during the year	(14,595)	-	(14,595)	(18,242)	-	(18,242)
Transfer to Investment Risk Reserve (note 19)	(4,046)	-	(4,046)	-	-	-
Utilised during the year	(52,309)	(36,888)	(89,197)	(25,182)	(29,557)	(54,739)
Exchange differences	(1,339)	-	(1,339)	(14,061)	-	(14,061)
At 31 December	**661,928**	**57,023**	**718,951**	**686,320**	**88,361**	**774,681**

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

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity and other placements with banks, financial and other institutions	-	-	-	7,539	-	7,539
Murabaha and other financings	289,394	19,153	308,547	298,650	50,266	348,916
Investment in mudaraba	733	11,581	12,314	854	11,581	12,435
Investment in associates	70,528	-	70,528	70,528	-	70,528
Sukuk and investment securities	167,604	5,700	173,304	162,799	5,700	168,499
Restricted investment accounts	58,651	8,626	67,277	58,723	8,626	67,349
Fixed assets	2,804	-	2,804	2,804	-	2,804
Investment in real estate	19,029	-	19,029	17,282	-	17,282
Intangible assets	8,500	-	8,500	5,000	-	5,000
Other assets	44,685	11,963	56,648	62,141	12,188	74,329
	661,928	**57,023**	**718,951**	**686,320**	**88,361**	**774,681**

Total provisions of $719 million (31 December 2015: $774.7 million) includes $29 million (31 December 2015: $16.5 million) held as general provisions. The movement in general provision is as follows:

	Relating to owners	
	31 December 2016	31 December 2015
At 1 January	16,492	6,509
Charge for the year	17,787	9,983
Transfer to Investment Risk Reserve (note 19)	(4,046)	-
Allocations	(1,315)	-
Exchange differences	-	-
At 31 December	**28,918**	**16,492**

General provision of $29 million (31 December 2015: $16.5 million) includes $13.8 million (31 December 2015: $11.8 million) in respect of Murabaha and other financings.

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

30 OVERSEAS TAXATION

	Relating to owners	
	31 December 2016	**31 December 2015**
Current taxes	14,338	35,261
Deferred taxes	8,607	(5,933)
	22,945	**29,328**

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 2016	**31 December 2015**
At 1 January	15,538	35,555
Charge for the year	(14,338)	(35,261)
Payments made	14,791	15,440
Exchange differences and other movements	3,188	(196)
At 31 December	**19,179**	**15,538**

Deferred tax asset/(liability)

	31 December 2016	**31 December 2015**
At 1 January	37,413	33,103
Charge for the year	(8,607)	5,933
Charges due to fair value reserve	(3,605)	4
Exchange differences and other movements	598	(1,627)
At 31 December	**25,799**	**37,413**

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

31 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 2016					31 December 2015				
	Retail & Corporate banking	**Trading Portfolio**	**Asset Management / Investment Banking**	**Others**	**Total**	**Retail & Corporate banking**	**Trading Portfolio**	**Asset Management / Investment Banking**	**Others**	**Total**
Operating income	209,911	46,713	3,461	2,063	**262,148**	205,743	62,048	227	351	**268,369**
Total expenses	(171,336)	(2,882)	(17,646)	(239)	**(192,103)**	(168,622)	(2,313)	(19,239)	(237)	**(190,411)**
Net income/(loss) before provision and overseas taxation	**38,575**	**43,831**	**(14,185)**	**1,824**	**70,045**	**37,121**	**59,735**	**(19,012)**	**114**	**77,958**
Provision and overseas taxation	(25,308)	(18,996)	(11,169)	(774)	**(56,247)**	(49,256)	(26,890)	(48,032)	(175)	**(124,353)**
Net income/(loss) for the year	**13,267**	**24,835**	**(25,354)**	**1,050**	**13,798**	**(12,135)**	**32,845**	**(67,044)**	**(61)**	**(46,395)**
Attributable to:										
Equity holders of the Bank	9,896	16,533	(23,763)	613	**3,279**	(13,434)	21,865	(69,086)	(142)	**(60,797)**
Minority interests	3,371	8,302	(1,591)	437	**10,519**	1,299	10,980	2,042	81	**14,402**
	13,267	**24,835**	**(25,354)**	**1,050**	**13,798**	**(12,135)**	**32,845**	**(67,044)**	**(61)**	**(46,395)**
Total assets	**5,498,591**	**1,646,567**	**1,185,085**	**11,067**	**8,341,310**	**5,148,061**	**1,764,711**	**1,216,471**	**9,398**	**8,138,641**
Total liabilities and equity of unrestricted investment account holders	**7,156,975**	**507,141**	**74,356**	**82**	**7,738,554**	**6,601,729**	**864,730**	**80,270**	**71**	**7,546,800**

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

	31 December 2016					31 December 2015					
	Europe	**North America**	**Middle East & Africa**	**Asia**	**Others**	**Total**	**Europe**	**North America**	**Middle East & Africa**	**Asia**	**Others**	**Total**
Operating income	2,566	2,793	70,801	183,869	2,119	**262,148**	2,962	3,245	58,020	200,908	3,234	**268,369**
Total expenses	(9,403)	-	(67,898)	(114,795)	(7)	**(192,103)**	(12,746)	-	(67,709)	(109,945)	(11)	**(190,411)**
Net income/(loss) before provision and overseas taxation	**(6,837)**	**2,793**	**2,903**	**69,074**	**2,112**	70,045	**(9,784)**	**3,245**	**(9,689)**	**90,963**	**3,223**	**77,958**
Provision and overseas taxation	(1,439)	(714)	(23,486)	(30,608)	-	**(56,247)**	(3,350)	(467)	(73,282)	(47,254)	-	**(124,353)**
Net income/(loss) for the year	**(8,276)**	**2,079**	**(20,583)**	**38,466**	**2,112**	**13,798**	**(13,134)**	**2,778**	**(82,971)**	**43,709**	**3,223**	**(46,395)**
Attributable to:												
Equity holders of the Bank	(8,276)	2,079	(18,243)	25,607	2,112	**3,279**	(13,134)	2,778	(84,676)	31,012	3,223	**(60,797)**
Minority interests			(2,340)	12,859	-	**10,519**	-	-	1,705	12,697	-	**14,402**
	(8,276)	**2,079**	**(20,583)**	**38,466**	**2,112**	**13,798**	**(13,134)**	**2,778**	**(82,971)**	**43,709**	**3,223**	**(46,395)**
Total assets	**444,702**	**82,789**	**3,379,948**	**4,328,237**	**105,634**	**8,341,310**	**465,967**	**60,404**	**3,318,341**	**4,210,641**	**83,288**	**8,138,641**
Total liabilities and equity of unrestricted investment account holders	**199,075**	**16,599**	**3,586,489**	**3,919,297**	**17,094**	**7,738,554**	**220,496**	**18,541**	**3,477,074**	**3,811,977**	**18,712**	**7,546,800**

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

32 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.

33 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2016	31 December 2015
Acceptances and endorsements	72,669	63,006
Guarantees and irrevocable letters of credit	746,789	768,934
Customer and other claims	353,571	322,802
	1,173,029	**1,154,742**

Commitments

	31 December 2016	31 December 2015
Undrawn facilities, financing lines and other commitments to finance	**1,849,842**	**2,048,276**

34 CURRENCY RISK

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	PKR	EUR	USD	PLN
As at 31 December 2016				
Total currency exposure	92,594	86,265	237,998	37,921
Reasonable shift	2.79%	2.60%	0.21%	0.67%
Total effect on income/equity	**2,583**	**2,243**	**500**	**254**

	PKR	EUR	USD	PLN
As at 31 December 2015				
Total currency exposure	92,346	73,227	57,854	41,298
Reasonable shift	4.03%	0.69%	0.88%	1.64%
Total effect on income/equity	**3,722**	**505**	**509**	**677**

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate as at 31 December as compared to the one year forward rate for the same period.

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

34 CURRENCY RISK (continued)

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

31 December 2016	United States Dollar	Pakistan Rupee	Swiss Franc	Bahraini Dinar	Euro	UAE Dirham	Hong Kong Dollar	Other	Total
Cash and balances with banks and central banks	78,885	308,377	3,092	181,464	134,984	9,812	30	19,389	736,033
Commodity and other placements with banks, financial and other institutions	-	47,931	-	42,444	52,232	-	-	-	142,607
Murabaha and other financings	430,205	1,650,696	-	1,232,961	20,363	45,232	-	65,131	3,444,588
Musharaka financing	-	229,960	-	-	-	-	-	-	229,960
Investment in mudaraba	14,425	-	-	-	-	-	-	-	14,425
Investment in associates	-	977	-	587,062	-	-	74,588	5,776	668,403
Sukuk and investment securities	136,614	1,645,069	676	70,479	5,692	-	-	16,252	1,874,782
Restricted investment accounts	71,706	-	-	-	8,146	-	-	-	79,852
Assets acquired for leasing	12,816	-	-	243,388	-	-	-	-	256,204
Investment in real estate	4,862	10,352	43,325	146,133	-	-	-	37,922	242,594
Other assets	110,422	191,066	1,970	21,146	26,888	-	8	10,154	361,654
Fixed assets	4,006	53,784	36	55,149	6	-	-	-	112,981
Intangible assets	161,214	16,013		-	-	-	-	-	177,227
Total assets	**1,025,155**	**4,154,225**	**49,099**	**2,580,226**	**248,311**	**55,044**	**74,626**	**154,624**	**8,341,310**
Customer current accounts	99,432	973,779	-	285,732	205,785	1,133	-	15,252	1,581,113
Due to banks, financial and other institutions	147,534	507,142	-	52,194	93,061	341,564	-	18	1,141,513
Due to investors	109,812	1,767,703	-	-	8,557	-	-	17,540	1,903,612
Other liabilities	24,613	132,975	9,047	173,431	1,735	-	-	821	342,622
Total liabilities	**381,391**	**3,381,599**	**9,047**	**511,357**	**309,138**	**342,697**	**-**	**33,631**	**4,968,860**
Equity of unrestricted investment accountholders	454,347	311,231	-	1,978,678	25,438	-	-	-	2,769,694
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**
31 December 2015									
Total assets	**1,087,874**	**4,003,092**	**49,107**	**2,379,827**	**310,266**	**62,411**	**75,141**	**170,923**	**8,138,641**
Total liabilities and equity of unrestricted investment accountholders	**731,505**	**3,586,435**	**10,441**	**2,457,810**	**383,493**	**340,609**	**-**	**36,507**	**7,546,800**
Contingent liabilities and commitments	**753,115**	**1,804,281**	**19,402**	**503,091**	**61,631**	**61,498**	**-**	**-**	**3,203,018**

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

35 MATURITY PROFILE

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

31 December 2016	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	736,033	-	-	-	-	736,033
Commodity and other placements with banks, financial and other institutions	90,375	52,232	-	-	-	142,607
Murabaha and other financings	720,573	527,017	491,390	928,960	776,648	3,444,588
Musharaka financing	1,358	3,103	11,308	150,574	63,617	229,960
Investment in mudaraba	-	-	-	14,425	-	14,425
Investment in associates	-	-	-	-	668,403	668,403
Sukuk and investment securities	41,055	321,423	787,988	560,667	163,649	1,874,782
Restricted investment accounts	-	-	-	-	79,852	79,852
Assets acquired for leasing	3,390	15	3,345	10,528	238,926	256,204
Investment in real estate	-	-	-	177,269	65,325	242,594
Other assets	173,385	85,636	77,651	24,978	4	361,654
Fixed assets	92	43	4,682	8,602	99,562	112,981
Intangible assets	-	-	-	3,952	173,275	177,227
Total assets	**1,766,261**	**989,469**	**1,376,364**	**1,879,955**	**2,329,261**	**8,341,310**
Customer current accounts	1,581,113	-	-	-	-	1,581,113
Due to banks, financial and other institutions	796,693	108,226	64,859	166,001	5,734	1,141,513
Due to investors	1,123,321	302,420	465,355	12,037	479	1,903,612
Other liabilities	263,135	31,153	3,060	37,710	7,564	342,622
Total liabilities	**3,764,262**	**441,799**	**533,274**	**215,748**	**13,777**	**4,968,860**
Equity of unrestricted investment accountholders	1,215,986	313,601	914,482	325,625	-	2,769,694
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**
31 December 2015						
Total assets	**1,754,565**	**1,025,966**	**1,290,679**	**1,805,711**	**2,261,720**	**8,138,641**
Total liabilities and equity of unrestricted investment accountholders	**5,012,926**	**567,599**	**1,274,485**	**663,364**	**28,426**	**7,546,800**
Contingent liabilities and commitments	**1,923,145**	**318,914**	**402,810**	**519,026**	**39,123**	**3,203,018**

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

36 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:

31 December 2016	Banks and Financial Institutions	Trading and Manu-facturing	Property and Cons-truction	Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	736,033	-	-	-	-	-	-	736,033
Commodity and other placements with banks, financial and other institutions	142,607	-	-	-	-	-	-	142,607
Murabaha and other financings	815,539	725,440	109,020	96,971	1,172,859	257,011	267,748	3,444,588
Musharaka financing	47,034	75,890	36,071	27,080	38,020	2,361	3,504	229,960
Investment in mudaraba	-	-	14,425	-	-	-	-	14,425
Investment in associates	487,444	3,429	109,454	68,076	-	-	-	668,403
Sukuk and investment securities	1,696,963	80,179	33,719	19,433	-	-	44,488	1,874,782
Restricted investment accounts	-	-	79,852	-	-	-	-	79,852
Assets acquired for leasing	-	14,829	8,392	15	232,968	-	-	256,204
Investment in real estate	-	-	242,594	-	-	-	-	242,594
Other assets	170,016	59,093	46,315	31	31,418	-	54,781	361,654
Fixed assets	53,784	-	59,197	-	-	-	-	112,981
Intangible assets	177,227	-	-	-	-	-	-	177,227
Total assets	**4,326,647**	**958,860**	**739,039**	**211,606**	**1,475,265**	**259,372**	**370,521**	**8,341,310**
Customer current accounts	38,008	455,303	72,068	120,656	474,093	15,702	405,283	1,581,113
Due to banks, financial and other institutions	1,112,774	-	-	28,739	-	-	-	1,141,513
Due to investors	499,469	558,006	23,569	185,697	377,704	13,436	245,731	1,903,612
Other liabilities	119,551	31	45,796	319	56,029	-	120,896	342,622
Total liabilities	**1,769,802**	**1,013,340**	**141,433**	**335,411**	**907,826**	**29,138**	**771,910**	**4,968,860**
Equity of unrestricted investment accountholders	356,885	257,409	82,649	147,367	1,785,059	-	140,325	2,769,694
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**
31 December 2015								
Total assets	**4,289,848**	**1,082,735**	**702,936**	**206,218**	**1,274,262**	**229,340**	**353,302**	**8,138,641**
Total liabilities and equity of unrestricted investment accountholders	**2,090,247**	**1,270,117**	**422,576**	**470,353**	**2,437,228**	**26,093**	**830,186**	**7,546,800**
Contingent liabilities and commitments	**1,721,880**	**792,934**	**255,345**	**24,631**	**321,594**	**30,831**	**55,803**	**3,203,018**

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

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

31 December 2016	Asia / Pacific	Middle East	Europe	North America	Others	Total
Cash and balances with banks and central banks	367,858	226,643	87,556	53,976	-	736,033
Commodity and other placements with banks, financial and other institutions	47,931	94,676	-	-	-	142,607
Murabaha and other financings	1,684,028	1,421,623	233,313	-	105,624	3,444,588
Musharaka financing	229,960	-	-	-	-	229,960
Investment in mudaraba	-	-	-	14,425	-	14,425
Investment in associates	75,565	592,838	-	-	-	668,403
Sukuk and investment securities	1,656,198	209,096	5,529	3,959	-	1,874,782
Restricted investment accounts	-	79,852	-	-	-	79,852
Assets acquired for leasing	-	256,204	-	-	-	256,204
Investment in real estate	13,977	147,370	81,247	-	-	242,594
Other assets	182,923	131,277	37,015	10,429	10	361,654
Fixed assets	53,784	59,155	42	-	-	112,981
Intangible assets	16,013	161,214	-		-	177,227
Total assets	**4,328,237**	**3,379,948**	**444,702**	**82,789**	**105,634**	**8,341,310**
Customer current accounts	1,063,594	312,309	189,232	15,615	363	1,581,113
Due to banks, financial and other institutions	507,141	617,641	-	-	16,731	1,141,513
Due to investors	1,903,606	6	-	-	-	1,903,612
Other liabilities	133,725	198,070	9,843	984	-	342,622
Total liabilities	**3,608,066**	**1,128,026**	**199,075**	**16,599**	**17,094**	**4,968,860**
Equity of unrestricted investment accountholders	311,231	2,458,463	-	-	-	2,769,694
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**
31 December 2015						
Total assets	**4,210,641**	**3,318,341**	**465,967**	**60,404**	**83,288**	**8,138,641**
Total liabilities and equity of unrestricted investment accountholders	**3,811,977**	**3,477,074**	**220,496**	**18,541**	**18,712**	**7,546,800**
Contingent liabilities and commitments	**2,641,074**	**538,736**	**20,883**	**-**	**2,325**	**3,203,018**

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

37 RISK MANAGEMENT

Credit risk

The significant concentration of credit risk at 31 December is set out in note 36.

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Group and its unrestricted investment accountholders:

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Gross exposure						
Past due but performing financing exposures	156,478	56,670	213,148	50,192	74,480	124,672
Non performing financing exposures	346,984	154,158	501,142	405,065	208,815	613,880
	503,462	**210,828**	**714,290**	**455,257**	**283,295**	**738,552**
Fair value of collateral						
Past due but performing financing exposures	228,433	46,656	275,089	342,032	26,006	368,038
Non performing financing exposures	76,828	176,762	253,590	86,028	195,954	281,982
	305,261	**223,418**	**528,679**	**428,060**	**221,960**	**650,020**

Included in the performing financing exposures of the Group are facilities which have been restructured during the year which are as follows:

	31 December 2016			31 December 2015		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	13,092	6,002	**19,094**	25,656	14,012	**39,668**

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

37 RISK MANAGEMENT (continued)

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 2016	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	263,556	-	-	-	-	472,477	736,033
Commodity and other placements with banks, financial and other institutions	90,336	52,271	-	-	-	-	142,607
Murabaha and other financings	426,768	689,826	584,607	1,031,302	712,085	-	3,444,588
Musharaka financing	15,040	1,665	11,308	52,696	149,251	-	229,960
Sukuk and investment securities	3,583	385,657	885,853	219,632	101,141	278,916	1,874,782
Assets acquired for leasing	-	456	4,543	2,184	249,021	-	256,204
Other assets	379	430	4,230	-	126	356,489	361,654
Total financial assets	**799,662**	**1,130,305**	**1,490,541**	**1,305,814**	**1,211,624**	**1,107,882**	**7,045,828**
Customer current accounts	-	-	-	-	-	1,581,113	1,581,113
Due to banks, financial and other institutions	720,142	129,807	244,655	41,999	4,910	-	1,141,513
Due to investors	437	312,348	516,661	461,756	612,410		1,903,612
Other liabilities	502	453	-	-	-	341,667	342,622
Total financial liabilities	**721,081**	**442,608**	**761,316**	**503,755**	**617,320**	**1,922,780**	**4,968,860**
Equity of unrestricted investment accountholders	1,239,370	256,731	821,782	451,811	-	-	2,769,694
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)**
31 December 2015							
Total financial assets	**1,236,861**	**1,225,851**	**1,531,643**	**1,046,679**	**878,375**	**899,612**	**6,819,021**
Total financial liabilities and equity of unrestricted investment accountholders	**2,466,794**	**447,826**	**2,432,003**	**426,070**	**25,528**	**1,748,579**	**7,546,800**
Total repricing gap	**(1,229,933)**	**778,025**	**(900,360)**	**620,609**	**852,847**	**(848,967)**	**(727,779)**

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

37 RISK MANAGEMENT (continued)

	USD	EUR	PKR	BHD	AED
As at 31 December 2016					
Total profit rate exposure	80,899	94,415	380,270	698,153	287,647
Reasonable shift	0.44%	0.35%	0.38%	0.50%	0.38%
Total effect on income	**356**	**330**	**1,445**	**3,491**	**1,093**

	USD	EUR	PKR	BHD	AED
As at 31 December 2015					
Total profit rate exposure	94,372	81,757	334,841	874,911	278,200
Reasonable shift	0.30%	0.23%	3.23%	1.42%	0.95%
Total effect on income	**283**	**188**	**10,815**	**12,424**	**2,643**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

Price risk

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% (31 December 2015: 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices:

	Impact on other components of equity	
Index	**2016**	**2015**
Karachi stock exchange (+/-10%)	3,296	3,092

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

38 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.

Related parties include:

(a) Directors and major shareholders of Ithmaar and companies in which they have an ownership interest.
(b) Corporate, whose ownership and management is common with Ithmaar.
(c) DMIT and companies in which DMIT has ownership interest and subsidiaries of such companies.
(d) Associated companies of Ithmaar.

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 2016		31 December 2015	
	Relating to owners	Relating to unrestricted investment accounts	Relating to owners	Relating to unrestricted investment accounts
Assets				
Murabaha and other financings - note (i)	317,773	37,811	330,597	37,813
Sukuk and investment securities	-	9,778	-	9,778
Other assets - note (i)	93,582	-	96,236	-
Liabilities				
Customers' current accounts	20,502	-	26,785	-
Due to banks, financial and other institutions	33,813	-	159,292	-
Equity of unrestricted investment accounts	-	45,889	-	27,289
Other liabilities	2,188	-	10,844	-
Funds managed by related parties	-	14,425	-	16,349

The Group entered into the following significant transactions with related parties during the year:

	31 December 2016	31 December 2015
Income from financings and short-term liquid funds	3,639	7,166
Dividends received	18,202	14,513
Expense recovery	5,354	7,232
Profit paid	18	61
Fee income	3,874	4,351
Fee expense	600	600

Note (i) – The Group has obtained pledge of specific assets totalling $258.1 million (31 December 2015: $189.5 million) against the outstanding exposure.

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

39 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 table below summarises the composition of regulatory capital and the ratios of the Group for the years ended. The capital adequacy ratio has been calculated in accordance with CBB guidelines & CBB directives incorporating credit risk, operational risk and market risk. The minimum regulatory requirement is 12.5% under Basel III.

	31 December 2016	31 December 2015
Tier 1	641,538	599,862
Tier 2	-	-
Total Capital Base	**641,538**	**599,862**
Total Risk-Weighted Exposures	4,926,634	4,682,072
Capital Adequacy Ratio	**13.02%**	**12.81%**

40 PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2016 (31 December 2015: Nil).

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

41 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 2016	**31 December 2015**
INCOME		
Group's share of income from funds under management	81	164
Income from other financings	122,278	157,282
Share of profit after tax from associates - note (i)	43,706	46,534
Income from investments	134,431	156,283
Other income	28,851	26,699
Gross income	**329,347**	**386,962**
Less: profit paid to banks, financial and other institutions (net) - note (ii)	(116,055)	(162,162)
Total income	**213,292**	**224,800**
EXPENSES		
Administrative and general expenses - note (ii)	(95,761)	(97,283)
Depreciation and amortisation	(20,602)	(20,981)
Total expenses	**(116,363)**	**(118,264)**
Net income before provision for impairment and overseas taxation	**96,929**	**106,536**
Provision for impairment (net)	(9,268)	(23,724)
Net income before overseas taxation	**87,661**	**82,812**
Overseas taxation	(21,619)	(26,080)
NET INCOME FOR THE YEAR	**66,042**	**56,732**
Attributable to:		
Equity holders of the Bank	54,906	47,684
Minority interests	11,136	9,048
	66,042	**56,732**
Basic and diluted earnings per share	**US Cts 1.89**	**US Cts 1.64**

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 146 (2015: 68 branches) out of total 354 branches (2015: 279 branches).

42 COMPARATIVES

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