Investing Ethically Across the Globe

Annual Report 2016

مصرف إبدار
Ibdar Bank

www.ibdarbank.com

Content

Ibdar Bank BSC(c)

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His Royal Highness
Prince Khalifa bin Salman
Al Khalifa

The Prime Minister of
the Kingdom of Bahrain

His Majesty King
Hamad bin Isa
Al Khalifa

The King of the Kingdom of
Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa

The Crown Prince,
Deputy Supreme Commander
and First Deputy Prime Minister

PROFILE, VISION AND MISSION

Profile

Ibdar Bank is an ethics driven wholesale Islamic Investment bank regulated by the Central Bank of Bahrain and engaged in Debt Capital Markets (DCM), Equity Capital Markets (ECM), Private Equity, Asset Management, Real Estate, Treasury and Capital Market, and investment advisory activities.

The Bank, which was formed in 2013 when three Bahrain-based Islamic banks, Elaf Bank, Capivest and Capital Management House merged to become the 3rd largest Islamic Investment Bank in Bahrain, is strengthened by a diversified regional shareholder base including such names as Kuwait Finance House, Kuwait Investment Company, Qatar Islamic Bank, Bahrain Islamic Bank, and the Islamic Corporation for the Development of the Private Sector.

Since inception, the Bank has built a track record in the Aviation, Real Estate, Sukook and Asset Management sectors, and remains focused on providing superior Islamic Investment Banking services whilst operating to the highest standards of ethical and sharia banking practices. The Bank is a keen supported of the elevation of the Islamic Banking and Finance Industry as a whole, and the reinvigoration of the Kingdom of Bahrain as the global Islamic Banking hub.

Vision

To be recognized as an industry leader in the provision of ethical and innovative Islamic Investment Banking services.

Mission

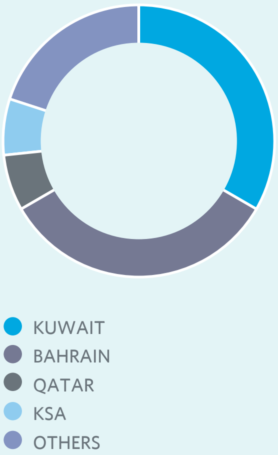
To enhance shareholder and stakeholder value, nurture long-term relationships with our clients and partners, support the development of our employees, add value to the communities in which we operate, and facilitate the growth and further elevation of the local, regional and global Islamic financial services industry.

SHAREHOLDERS OF THE BANK

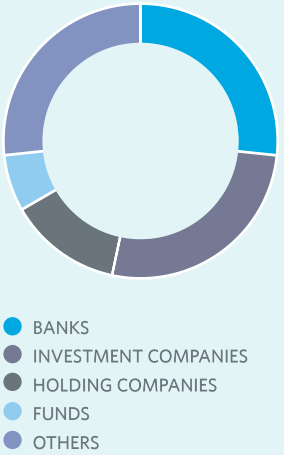
Ibdar Bank is backed and supported by a select group of regional shareholders and a close-knit network of strategic partners, business associates and allies. The Bank's shareholders include a group of well-established, diversified and renowned institutions across the GCC countries among which are:

Shareholder	Country	Percentage
Kuwait Finance House	Kuwait	30.08%
Kuwait Investment Company	Kuwait	7.69%
Sukouk Holding Company	Kuwait	4.89%
Kuwait Finance House B.S.C. (c)	Bahrain	4.71%
Qatar Islamic Bank	Qatar	4.60%
Al-Bassam Investment Company W.L.L	Bahrain	3.90%
Overseas Investments S.P.C	Bahrain	3.46%
Bahrain Islamic Bank B.S.C	Bahrain	3.37%
Samama Global Corporation	Saudi Arabia	3.35%
Gulf Investment House	Kuwait	2.95%
National Amlak Company	Saudi Arabia	2.79%
Islamic Corporation for the Development of Private Sector	Saudi Arabia	2.30%
Others	-	25.91%

OUR INVESTORS BY GEOGRAPHY



OUR INVESTORS BY TYPE



CHAIRMAN'S MESSAGE

Mr. Tareq Sadeq
Chairman

The Bank maintained a steadfast focus on delivering value for shareholders and stakeholders and as a result USD 44 million was deployed in acquiring new assets during the year.

Dear Shareholders,

In the name of Allah, the Most Merciful, the Most Compassionate. Praise be to Allah, and Peace and Prayers upon the Last Prophet and Messenger Mohammed, his household and his Companions.

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

The global economy witnessed continued stagnation in 2016. Sluggish growth in advanced economies, due to low commodity prices, weak global trade, and lack of liquidity, continued to infect the world economy. In Bahrain and the region, fluctuating oil prices remained a debilitating force. However, despite these challenges, Bahrain's economy remained resilient. This is in part due to fiscal consolidation efforts and the activation of a large infrastructure pipeline, resulting in reasonable growth in the non-oil sector. Against this less than ideal backdrop, the Bank reported total revenues of USD 19.3 million for the year, (2015: USD 23.7 million).

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

Although the 2016 balance sheet reflects a loss for the year, the Bank is on track to becoming an established market participant. The second half of the year saw a renewed focus placed on the development and growth of a well-diversified investment platform, and the Bank achieved a number of milestones in this regard. The investment engine gathered momentum, with enhanced activity in the real estate business, in addition to healthy exits from aviation assets as the Bank worked on building a strong track record.

Among our key investments in 2016 were those in income generating aviation transactions, including the successful introduction of Islamic financing into the African aviation market. On the real estate front, the Bank completed its first successful foray into the USA with the acquisition of a USD78 million Multi Family Housing property in Montgomery County Maryland, USA and the closing of a USD 29.5 million Joint Venture (JV) to develop a prime Purpose-built Student Accommodation (PBSA) project in Southampton, United Kingdom.

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

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

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

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

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

Mr. Tareq Sadeq
Chairman

BOARD OF DIRECTORS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1. Mr. Tareq Sadeq, Chairman

Tariq Sadeq is a Fellow Chartered Accountant with a career of more than three decades spanning the Middle East and Africa. His career began in 1979 with Ernst & Young, and for the last 15 years he has held various leadership roles including being a senior member of the MENA Leadership Team, an Advisory Leader and Accounts and Business Development Leader for the Middle East and North Africa region, and prior to that Office Managing Partner for the Bahrain office of Ernst & Young. Mr. Sadiq manages a boutique financial consultancy firm in Bahrain to provide specialist advisory services to niche clients in the financial services sector as well as servicing high net worth individuals. Currently he sits on the Boards of Ahli United Bank Kuwait, Al Zayani Investments Bahrain and Bahrain International Golf Course Company BSC (c) as Independent Director.

2. Mr. Abdulkarim Ahmed Bucheery, Vice Chairman

Abdulkarim Bucheery is a well versed banking professional who brings 40 years of in depth experience to the board. Mr. Bucheery is Group Chief Executive Officer of BBK, the Vice Chairman of Naseej Co, and a Board member of Bahrain Credit Facilities Co. (BCFC), in addition to his membership on the board of a number of Governmental related bodies. Prior to these postings, he was also the Chairman of Credimax, the Chairman of Capinnova Islamic Investment Bank, and a Board member of Securities and Investment Co. (SICO), Deposit Protection Scheme of the CBB, the Chairman of the Bahrain Associations of Banks (BAB), G 4 General Trading WLL, Dubai, and a Board member of INJAZ Bahrain. Mr. Bucheery served with Gulf International Bank (GIB) as an Executive Vice President (EVP) and Head of Institutional Banking for 23 years. He has received a number of industry accolades for his achievements in the financial services industry including "Best Banker" -2009 by World Finance, London and was included in the Top 100 CEOs in the Middle East 2016 by INSEAD and Trends, Dubai. Mr Bucheery holds a BSc in Economic Sciences from Aleppo University in Syria.

3. Mr. Abdulaziz Hassan Al Afaleq, Member

Engineer Abdulaziz Hassan Al Afaleq is Partner, Board Member and Chief Executive Officer of Al-Kifah Holding Company, a diverse and integrated construction and investment power house based in the Kingdom of Saudi Arabia. He is also the former Chairman of Al Fateh Sport Club Al-Ahsa.

Mr. Al Afaleq is a Mechanical Engineer and holds an MBA from King Fahd University of Petroleum and Minerals.

4. Dr. Ahmed Ebrahim Al Balooshi, Member

Dr. Al Balooshi is the CEO of Smarteam Consultancy and Board Member and Audit Committee member of Bahrain Telecommunications Group. He is a member of the Audit Committees of Aluminum Bahrain (Alba) and Falcon Group (Gulf Air, Bahrain Airport Services, and Gulf Aviation Academy). During his career, Dr. Balooshi was a Senior Manager with Ernst and Young, and Director of Audit and Head of Computer Audit for the Ministry of Finance. He held the post of Undersecretary, Regulatory and Performance Audit for the National Audit Office from 2005 to 2013. In 2014 he was appointed Assistant Professor at the College of Business Administration, University of Bahrain (UOB). Dr. Balooshi is a certified trainer with Bahrain Institute for Public Finance (BIPA) and Bahrain Institute for Banking and Finance (BIBF) and AIMS Training Institute in Saudi Arabia. He is also the Chairman of the University of Bahrain (UOB) Alumni. Dr. Balooshi holds a PhD in Accounting from the University of Surry, UK and is a Certified Public Accountant (CPA), USA, and holds an MBA in Finance and a BSc in Accounting from the University of Bahrain.

5. Mr. Ebrahim H. Ebrahim Al Jassmi, Member

Ebrahim Al Jassmi is an experienced banker with more than 35 years in both the Islamic and conventional banking industry, having worked with a number of prominent financial institutions in the Kingdom of Bahrain. Mr. Al Jassmi is a board member of Bahrain Islamic Bank and board member of Takaful International Company. Previously, he was a board member of First Energy Bank and Khaleeji Commercial Bank (KHCB). At KHCB he also held the position of Chief Executive Officer from 2004 to 2012. Prior to joining Khaleeji Commercial Bank, he was the Chief Executive Officer of the Liquidity Management Centre LMC, Bahrain. Mr. Al Jassmi also worked with Shamil Bank, Arab Banking Corporation, ABC securities and BBK Financial Services Company. He holds a B.S degree in Economics and an MBA.

6. Mr. Hamad Mohammed Al-Sejari, Member

Hamad Mohammed Al-Sejari is a dynamic Islamic banker with diverse experience in various facets of Islamic banking. Mr. Al-Sejari has been an active player in the investment banking industry for the past 12 years leading numerous innovative Shari'a compliant transactions for Kuwait Finance House ("KFH"). As well as expertise in originating, sourcing, developing, structuring, negotiating, syndicating, and executing various Islamic products, his extensive experience includes mergers, acquisitions, valuation advisory engagements and private placements. He also served as a Board Director in several companies / funds across sectors such as Aviation and Shipping. Mr. Al-Sejari holds a Bachelors in Civil Engineering with a minor in Business Administration from Old Dominion University, USA.

7. Mr. Jamal Abdulla Al Saleem, Member
Mr. Jamal Abdulla Al Saleem is a board member of Kuwait Investment Company, the former Chairman of Almasar Leasing and Investment Company, the Vice Chairman of Kingdom Electricity Company in Jordan and Executive Vice President of the Privatization Holding Company in Kuwait. Throughout his career, Mr. Al Saleem gained extensive experience in accounting and finance, and has also been heavily involved in establishing and overseeing investment companies in the region. He has over 30 years of experience in accounting and finance in the GCC region, and has conducted research to enhance the performance of GCC institutions, as well as promote Arab economic integration. As an avid member of the Kuwait Accountants and Auditors Society, Mr. Al Saleem has contributed specific research on the effects of voluntary demand of the external auditor in Kuwait. Mr. Al Saleem has previously held and continues to be an active member of the Boards and Executive Committees for numerous GCC financial institutions and investment companies. Mr. Al Saleem holds a BA degree in Accounting from Kuwait University, and an MSc degree in Accounting achieved with highest honors from Oklahoma City University, USA.

8. Mr. Jasem Al-Yaseen, Member
Mr. Al-Yaseen is an experienced banking executive with a career of more than 27 years spanning conventional and Islamic banking. He is the Executive Manager of the Treasury Sales Desk at Kuwait Finance House - a post which he has held for the last decade. Prior to his appointment with KFH, Mr. Al-Yaseen served as a Senior Dealer at Treasury Corporate Desk in Commercial Bank and as a Senior Dealer with Gulf Bank. He holds a Bachelor's Degree in Industrial Engineering from the University of Miami, USA.

9. Mr. Khalid Al Maarafi, Member
Mr. Khalid Al Maarafi brings more than 33 years of extensive experience in business management and in the banking and financial services industry. Currently Executive Manager and Head of the Retail Banking Group at Kuwait Finance House-Bahrain, he is also the Chairman of Al Enma'a House for Real Estate, and a non-Executive Director on the Boards of Directors of various other companies. Mr. Al Maarafi has held several positions at the Ministry of Finance and at the Ministry of Industry & Commerce in Bahrain. He holds a Bachelor's in Accounting from the University of Bahrain, and is a Certified Public Accountant (CPA).

10. Mr. Mohamed Nooruddin, Member
Mr. Mohamed Nooruddin is the Chairman of Newbury Investments W.L.L, a privately owned advisory firm in Bahrain, and a board member at Tadhamon Capital in Bahrain and at Itqan Capital in Jeddah. He has over 30 years of experience in both the conventional and Islamic banking sector and has a wide networking base in the region. He was an Advisor to the CEO of Arcapita Bank in Bahrain after being the General Manager of the company from 2003 to 2008. Prior to Arcapita, Mr. Nooruddin held key management roles in various reputed financial institutions in Bahrain including Gulf International Bank (GIB) and Bahrain International Bank. He holds a BSc. in Business Administration from the University of Bahrain and has attended various executive financial training programs in Harvard, INSEAD, and the University of Virginia.

ACTING CEO MESSAGE

Ahmed Al Rayes
Acting Chief Executive Officer

Throughout 2016 the management of Ibdar Bank, supported by our Board of Directors and Shareholders, continued its focus on the further development of the Bank and on the enhancement of our position as a stronger and more innovative Islamic investment platform.

2016 was an active year for Ibdar Bank, characterized by consolidation of our legacy assets, the preparation of our investment pipeline, and an unswerving focus on creating value and steady income yields for the Bank, our Shareholders and Clients.

Although fluctuating oil prices and regional geo-political instability impacted investor sentiment and provided obstacles to maximizing on market opportunities, the year underscored the tangible resilience of Islamic banks in the offering of innovative products and services that are geared to revive investment, and restore confidence in the global economy.

Throughout 2016 the management of Ibdar Bank, supported by our Board of Directors and Shareholders, continued its focus on the further development of the Bank and on the enhancement of our position as a stronger and more innovative Islamic investment platform. I am pleased to report that the Bank's investment activities accelerated with the deployment of a total of USD 44 million in 3 investments.

The Private Equity team concluded exits worth USD 32 million, further solidifying the Ibdar Bank and Palma Holding JV partnership as the reference aircraft leasing and investor platform in the GCC. To date, the Bank has completed USD192 million in aviation transactions and is working on bringing to market new transactions in the sector and other private equity segments.

During the reporting period, the sukuk portfolio remained an important revenue stream with USD 6.2 million positioning Ibdar Bank as one of the top tier performers in the GCC. Aligned with our endeavor to build a fee-based income model, and provide Islamic investment platforms that offer opportunities not previously available to investors, the Bank embarked on its first trade finance fund with a highly experienced fund manager specialized in African commodities. The Fund is also the first of its kind in the GCC.

Today, the Bank has built a significant track record of investment in sectors including Aviation, Financial Services, Infrastructure, Oil & Gas, Petrochemicals and Real Estate. Ibdar will continue to capitalise on opportunities in private equity, capital markets and real estate in order to deliver value and superior returns to shareholders and co-investors, and maintain our proactive approach to identifying and pursuing investment opportunities through the methodical targeting of markets, sectors, and by partnering with experts who have a proven track record of success.

As we move towards tomorrow, the Bank aims to maintain a strong financial position and support its ability to transact and underwrite through the development of recurring revenue streams and investments in income yielding assets. With increased investment and underwriting capacity, the Bank is now better positioned than ever to access larger and higher quality deals and to more effectively participate in capital markets.

In concluding, and on behalf of the Shareholders, Board and management of Ibdar Bank, I would like to express my sincere appreciation to the wise leadership of the Kingdom of Bahrain, His Royal Majesty King Hamad bin Isa Al Khalifa, His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa and His Royal Highness the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa. We would also like to acknowledge the strong support, policies and oversight provided by the Ministry of Finance, the Ministry of Industry and Commerce, and the Central Bank of Bahrain. Appreciation is also due to our loyal clients and dedicated employees, whose continued support are key to achieving our vision to be recognized as an industry leader in the provision of ethical and innovative Islamic Investment Banking services.

Ahmed Al Rayes
Acting Chief Executive Officer

CHIEF EXECUTIVE OFFICER

Mr. Ayman Sejiny
Chief Executive Officer (Effective 16th April, 2017)

Sejiny brings over 24 years of Investment and Corporate Banking experience, having held senior roles in a number of leading local, regional and international financial institutions such as Barclays, CITI Bank and ABN Amro. Previous to his appointment with Ibdar, Sejiny was the Group CEO of Bahrain based Bank Alkhair, which has a presence in Saudi Arabia, United Arab Emirates, Turkey and Malaysia. Prior to this he was Board Member and Chief Executive Officer of Barclays Capital Saudi Arabia where he managed Barclay's three business sectors consisting of Barclays Capital, Barclays Wealth, and Barclays Sales and Treasury. He is also the Chairman of Bahrain Financing Company Group (BFC), holds positions on various boards regionally and internationally, and has spoken at numerous banking and finance conferences in Bahrain, KSA, UAE, UK and the USA. Mr. Sejiny has a BA in Finance from Eastern Michigan University, United States.

MANAGEMENT TEAM


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1. **Mr. Ayman Sejiny -** Chief Executive Officer
   (Appointed 16 April 2016)
2. **Mr. Ahmed M Al Rayes -** Chief Investment Officer
3. **Mr. Janaka Mendis** - Chief Financial Officer
4. **Mr. Ahmed Al Mohaisen** - Executive Director Investor Relations
5. **Mr. Khalid Javaid** - Executive Director Legal & Board Secretary
6. **Mr. Mohammed Kettani** - Executive Director Private Equity
7. **Shaikh Abdullah Al-Khaldy** - Director Shari'ah Supervision & Advisory
8. **Mr. Ahmed Abdulla –** Director Financial Control
9. **Ms. Aysha Aljalahma -** Director Compliance & MRLO


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10. **Mr. Arshan Merchant -** Director Investment Administration
11. **Mr. Bassam Awdi -** Director Internal Audit
12. **Mr. Bassam Kameshki** - Director Real Estate
13. **Mr. Farrukh Zareef** - Director Risk Management
14. **Ms. Nada Kazerooni -** Director Treasury & Capital Market
15. **Mr. Nader AlQassab -** Director Post Acquisition
16. **Ms. Sama Al Alawi -** Director Human Resources
17. **Mrs. Victoria McFarlane -** Director Corporate Communications
18. **Dr. Yousif Janahi -** Director IT & Admin
19. **Mr. Hasan Juma -** Director Asset Management

MANAGEMENT REVIEW OF OPERATIONS

Treasury & Capital Markets

Treasury & Capital Markets performed well in 2016; diversifying the funding sources through the expansion of its inter-bank relationships. Leveraging of the sukuk portfolio generated USD 6.2 million during the reporting period; achieving over 8% mark to market returns on the average Sukuk portfolio. Ibdar has built a credible track record in managing its Sukuk book and has generated returns in excess of several industry benchmarks.

Real Estate

The team achieved milestones in enhancing its geographic footprint in resilient sectors with good property fundamentals. In particular, aligned with the Bank's strategy to diversify its international real estate portfolio whilst responding to investor demand for higher returns from the US and UK markets, the team concluded its first foray into the US market with successful acquisition of a USD78 million Multi Family Housing property in Montgomery County Maryland, USA. The Team also closed a USD29.5 million Joint Venture (JV) partnership with leading UK developer Investra Group, to develop a prime Purpose-built Student Accommodation (PBSA) project in Southampton, United Kingdom.

Private Equity

The team has been active in building a track record in the aviation sector and further solidified its position as a major GCC player by successfully exiting two aviation deals during the year these included one Bombardier Q400 aircraft leased to RwandAir, and four Bombardier Q400 aircraft leased to Ethiopian Airlines. The Bank is also in advanced stage in sale of three Q400 aircraft on lease to Falcon Aviation.

As a result, the Bank has completed USD192 million in aviation transactions and is working on bringing to market new transactions in the sector and other private equity segments. Currently, there is a focus on several other opportunities, including an aviation transaction in order to replace the exited assets.

These successful exits have established the Bank's capability for placement of future deals, and its ability to provide clients with income generating assets. The Bank continues to build its aviation vertical, in line with investor demand for yielding products, and is well positioned to extend the aviation investment platform globally in the near future.

Legacy Assets

A prudent valuation exercise was undertaken to meet new requirements of IFRS 9 where expected future credit losses have been considered and focused on monetizing such assets. During the reporting period, assets amounted to USD3 million was realized via IPO exits. Furthermore, assets located outside the home market were exchanged with Bahrain based assets.

Asset Management

Aligned with the Bank's focus on building a fee-based revenue model, the Asset Management business is partnering with fund managers with specialized expertise as a conduit to creation of Islamic investment platforms that offer new Shari'ah compliant opportunities previously not available in the market. As such, in 2016 the Bank pioneered the first trade finance fund in the GGC, which invests in African commodities and general trade finance transactions. Throughout the year, the Team remained focused on undertaking meaningful investments in. Throughout the year, the Team remained focused on undertaking meaningful investments in real assets, which generate income and have a clear exit strategy. As we move into 2017, the Bank will forge new partnerships and launch value added products. Aligned with the Bank's commitment to supporting Bahrain's 2030 vision, the Bank will also explore investment opportunities with a particular focus on the Small & Medium Enterprise (SME) sector, in order to facilitate the creation of jobs, and encourage the further diversification of Bahrain's economic sources.

Information Technology

As financial services and technology merge, Ibdar's cutting edge IT division is leveraging technology to elevate the investor experience and take the Bank to the next level. As the Division transforms into a profit center, plans are underway to create innovative online solutions that will allow investors to follow the progress of their investments and implement investment decisions online.

Throughout the year, the Information Technology team continued to support the needs of the business users by enhancing operational efficiency and security. During the reporting period, the team revamped the Bank's ICT infrastructure by replacing existing ICT solutions with a more user friendly and cost effective system. The Human Resource Management System (HRMS) was also upgraded streamlining HR processes and procedures. In addition, the Bank's website was enhanced to improve the user experience.

Human Capital

Human Resource division is focused on empowering employees to reach their full potential. As such, the Bank continued to invest in providing job specific training and development opportunities to its staff during the reporting period. A significant number of employees participated in training and development opportunities with total training amounting to 1,500 hours.

Training courses during the year included a Shari'ah Masterclass which covered "Advanced Topics in Islamic Financial Transactions". An intensive three-month leadership course was also conducted for members of Ibdar's middle management team. The course, which was delivered by a highly regarded international training provider, was designed to substantially enhance employee productivity, collaboration and communications, and covered Personal, Operational and Business Excellence.

The Bank headcount as of 31 December 2016 was 46 (2015: 48). The Bank remains committed to attracting, retaining and developing the best local talent.

The Human Resource division will continue to build a world class team, and support the development of an effective corporate culture that attracts and retains the Kingdom's best talent, and positions Ibdar Bank as an employer of choice.

Know Your Customer

The Bank complies with Financial Crimes Module of Central Bank of Bahrain's rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies.

The Bank places the utmost importance in understanding its customers and their financial activities and has implemented international standard systems to support monitoring activities. Proper due diligence is conducted to ensure that financial activities of its customers are performed in accordance with the guidelines issued by the regulatory authorities.

Compliance and Corporate Governance

Ibdar Bank is committed to the full compliance of all Central Bank of Bahrain (CBB) Rules and Regulations. Together with the election of the new Board of Directors', Audit, Risk and Compliance committees were merged into one, with the Internal Auditor, Risk Manager and Compliance & MLRO Officer, now reporting directly to the newly formed Audit, Risk and Compliance Committee (ARCC). The Nomination, Remuneration and Governance Committee (NRGC) and the Executive Committee are the remaining Board level sub committees that provides oversight to the Management.

An independent Corporate Governance evaluation was undertaken during the year to ensure the Bank meets industry benchmark requirements. The Bank maintains full compliance with the Foreign Account Tax Compliance Act (FATCA) and is working towards full compliance with the Common Reporting Standards (CRS).

Risk Management

With the increase in business activities, Risk Management team was proactively involved in the investment acquisition process; ensuring rigorous identification, analysis and mitigation of uncertainty in investment decisions.

An Enterprise Risk Management (ERM) approach that encompasses a myriad of potential risks and plans are considered in managing business risks. A new Risk Management platform was introduced to inculcate a disciplined and structured approach to managing the Bank's risk. The new platform and matrix will undergo periodic review to ensure compliance with the highest standards of risk management.

Corporate Social Responsibility

The Bank support the communities in which it operates through its corporate social responsibility programme. Throughout the year, the Bank extended its support to a number of charitable causes that help the less fortunate and enhance their quality of life, in addition to initiatives that elevate the Islamic banking industry.

INVESTMENTS

Ibdar Bank targets unique opportunities on behalf of investors with the ultimate objective to achieve capital growth and maximize profitability.

We shape detailed and well-designed investment strategy that targets resilient asset class sectors alongside the right partners. Alignment of interest is a vital element in any investment, and therefore we reflect our commitment by co-investing in every deal. Effective post-acquisition/investment management is a core component of our performance.

Angel Gardens

Prime real estate in Manchester, United Kingdom to be developed into a 466-apartment 'best in class' Private Rented Sector (PRS) residential scheme.

Kingsview Village

A USD 78 million Multi Family Housing property located in German Town Maryland, USA. Ibdar undertakes investments alongside partners with proven technical expertise and a track record of successfully executed transactions.

Aviation deals

Ibdar Bank has successfully concluded a number of aviation deals further solidifying the Ibdar Bank and Palma Holding JV partnership as the reference aircraft leasing and investor platform in the GCC.

Cumberland Place

A USD29.5 million prime site located in Southampton, UK which will be developed into a leading Purpose Built Student Accommodation (PBSA) scheme.

BOARD COMMITTEES

In 2016, the Audit Committee and Risk Committee merged to form the Audit, Risk & Compliance Committee

Audit, Risk & Compliance Committee

Role

To review the Banks financial reporting process, internal controls, and process for monitoring compliance with policies, procedures, laws and regulations and the Bank's own Code of Business Conduct.

Members

Dr. Ahmed Al Balooshi
Khalid Al Maarafi
Abdulaziz Al Falaq

Executive Committee

Role

Consider specific matters delegated to it by the full Board and make recommendations thereon to the Board or decisions based on authorities specifically delegated by the Board.

Members

Ebrahim Al Jassmi
Hamad Al Sejari
Jassem Al Yaseen
Mr. Abdulkarim Ahmed Bucheery

Remuneration & Nomination Committee

Role

The Remuneration Committee reviews and approves (according to the guidelines set by the Board) policies and procedures for the remuneration of Board members, Committees members, executive and non-executive employees.

Members

Tareq Sadeq
Mohammed Nooruddin
Jamal Al Saleem

MANAGEMENT COMMITTEES

The two management committees at Ibdar Bank support the Management in managing and overseeing the Bank's activities, and in proposing new strategies, policies and procedures to the Board. These committees are:

Asset and Liability Committee

Objective/Function

The Asset and Liability Committee determines the appropriate levels of liquidity, and ensures that all future commitments are funded in the most appropriate and cost-efficient manner. The Committee also ensures that the Bank fully adheres to the requirements of the CBB regarding capital, liquidity, and mismatched risk. It ascertains that approved investment deposits limits are not exceeded, and Treasury management and dealing activities are within the policy guidelines set by the Board. Furthermore, it monitors and supervises the overall balance sheet structure.

Members

Chief Executive Officer - (currently vacant)
Chairman

Chief Investment Officer

Member

Chief Financial Officer
Member

Head of Treasury and Capital Markets - (currently vacant)
Member

Head of Risk Management
Member

Investment, Credit and Risk Committee

Objective/Function

The Investment, Credit and Risk Committee is a senior management committee responsible for managing and supervising all activities related to investments, credit and risk managemen

Members

Chief Executive Officer - (currently vacant)
Chairman

Chief Investment Officer
Member

Chief Financial Officer
Member

Head of Risk Management
Non-Voting Member

Head of Legal
Non-Voting Member

Head of Treasury and Capital Markets - (currently vacant)

Non-Voting Member

SHARI'AH SUPERVISORY BOARD MEMBERS

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within Board approved risk appetite and the returns are commensurate with the risks taken. The objective is creating shareholder value through protecting the Bank against unforeseen losses, ensuring maximization of earnings potential and opportunities in relation to the Bank's risk appetite and ensuring earnings stability.

The Shari'ah Supervisory Board forms an integral part of the Banks' operations. Our Board members review all transactions and projects to ensure that they are fully compliant, and in accordance, with the rules and principles of the Islamic Shari'ah.

Our Shari'ah Supervisory Board consists of three of the most prominent and distinguished scholars in the field of Islamic Shari'ah:

His Eminence Dr. Abdul Sattar Abdul Kareem Abu-Ghuddah

Chairman

Dr. Abdul Sattar Abdul Kareem Abu-Ghuddah joined the Shari'ah Supervisory Board of Ibdar Bank in 2013. He holds two Bachelor degrees in Law and Shari'ah from the University of Damascus; and two Master Degrees in Shari'ah and Hadith, and a PhD in Comparative Fiqh from the Al-Azhar University in Egypt. Dr. Abu-Ghuddah is an active member of the Islamic Fiqh Academy, which evolved from the Organization of Islamic Conference in Jeddah, KSA. He is also a member of both the Accounting Standards

Board and Shari'ah Board of AAOIFI in Bahrain.

Dr. Abu-Ghuddah teaches Fiqh, Islamic studies and Arabic in Riyadh and has performed the valuable task of researching information for the Fiqh Encyclopaedia complied by the Ministry of Awqaf and Islamic Affairs in Kuwait.

He is currently the chairman and member of the Shari'ah supervisory boards of numerous international and regional Islamic banks and financial institutions, including the Shari'ah Board of the Central Bank of Bahrain. In addition to his participation in Islamic finance conferences, Dr. Abu-Ghuddah is also very prominent for his publications in the various topics of Islamic banking.

His Eminence Shaikh Adnan Abdulla Al Qattan

Board Member

Shaikh Adnan Abdulla Al Qattan holds a Bachelor's degree in Islamic Shari'ah from the Islamic University, Madinah, Saudi Arabia, and a Master's degree in Quran and Sunnah from the University of Um Al-Qura, Makkah, Saudi Arabia.

Shaikh Al Qattan is the Chairman of Bahrain's Hajj Mission, President of the Supreme Shari'ah Appeal Court, and a member of the Supreme Council for Islamic Affairs. He is also the President of the Board of Trustees of Al Sanabel Orphans Care and Vice-

President of the Royal Charity Organization.

Shaikh Al Qattan serves in the Shari'ah Supervisory Board of various Islamic banks and financial and investment institutions, in addition to being Friday sermon orator at Al- Fatih Grand Mosque in Manama (Bahrain).

His Eminence Shaikh Nidham Mohammed Saleh Yaquby

Board Member

Shaikh Nidham Mohammed Saleh Yaquby holds a Bachelor's degree in Economics and Comparative Religion from McGill University, Montreal and PhD from Lahaye University.

Shaikh Nidham obtained his Shari'ah knowledge and teachings from prominent Shari'ah scholars in the Gulf region and achieved their highest valuation. Shaikh Nidham is the chairman and member in numerous Shari'ah supervisory boards of international

Islamic banks and financial institutions including the Dow Jones Islamic Index.

He is a member of the Shari'ah board of Central Bank of Bahrain, the AAOIFI Shari'ah Board, and the Islamic Rating Agency Shari'ah Board. Shaikh Nidham is also very prominent for his participation, contribution in international Islamic finance conferences, and offering financial solutions and instruments for contemporary financing schemes. Shaikh Yaquby is a visiting professor at the International Islamic University, Malaysia.

SHARI'AH SUPERVISORY BOARD REPORT

SHARI'AH SUPERVISORY BOARD REPORT

بسم الله الرحمن الرحيم

24 Jumada Al-Awwal 1438
21 February 2017

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

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

We have studied the products introduced by the Bank and verify the extent of the Bank's commitment to the provisions and principles of Islamic Sharia laws, and with the specific fatwas, rulings and guidelines issued by us.

Since the Executive Management takes the responsibility to ensure that the Bank's commitment to act in accordance with the rules and principles of Sharia law, our responsibility is limited to declaring and stating the Sharia opinion on the banking and investment transactions that were presented to the Sharia Supervisory Board.

Ibdar Bank's operations have been discussed and reviewed by the Sharia Supervisory Board and it's executive members, through seven meetings during the year. This is in addition to the daily engagements of the internal Sharia Supervision and Advisory Department, where thorough reviews for more than 157 new documents, agreements, guidelines and policies, that were introduced by the management or transferred from the Board of Directors to the Sharia Supervisory Board, were undertaken.

The scope of our review covered the investment projects, such as, investments in Aviation, Private Equities, Real Estate investments, Shipping, Sukuks & Money Market, Investment accounts and Funds.

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

In our opinion:

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

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

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

Dr.Abdulsttar Abu Ghudda
SSB Chairman

Shaikh /Adnan Al-Qattan
SSB Member

Shaikh/ Nizam Yacoby
SSB Executive Member

Financial Performance

CONTENTS

Independent Auditors' Report to the Shareholders

Report on the consolidated financial statements

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

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

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

Report on other regulatory requirementts

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

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

b) the financial information contained in the Chairman's report is consistent with the consolidated financial statements;

c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration no. 137
27 February 2017

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	31 December 2016	31 December 2015 (Restated)
Assets			
Cash and balances with banks		5,151	13,219
Placements with financial institutions		7,902	2,002
Financing receivables	5	6,915	14,973
Receivable from Ijarah investors	6	15,185	15,662
Investment securities	7	158,561	207,105
Assets acquired for leasing	8	68,602	185,031
Investment in real estate	9	107,264	30,034
Equity-accounted investees	10	4,742	12,500
Other assets	11	13,603	9,029
Total assets		**387,925**	489,555
Liabilities			
Placements from financial institutions		6,503	4,163
Financing liabilities	12	73,273	26,221
Liabilities related to assets acquired for leasing	13	52,181	143,828
Other liabilities	14	13,963	11,763
Total liabilities		**145,920**	185,975
Owners' Equity			
Share capital	15	300,000	300,000
Statutory reserve		676676	676
Accumulated losses		(66,634)	(17,249)
Investments fair value reserve		-	(107)
Property fair value reserve		610	1,826
General reserve		4,618	4,618
Equity attributable to shareholders of Bank		**239,270**	289,764
Non-controlling interests		2,735	13,816
Total owners' equity		**242,005**	303,580
Total liabilities and owner's equity		**387,925**	489,555

The consolidated financial statements consisting of pages 27 to 62 were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

Tareq Sadeq
Chairman

Abdulkarim Bucheery
Vice chairman

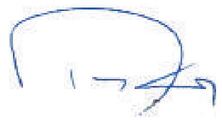
The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

Consolidated Income Statement

For the year ended 31 December 2016

	Note	2016	2015 (Restated)
INCOME			
Income from investment banking services		-	1,954
Income from investment securities	16	5,841	8,097
Income from assets acquired for leasing, net	8	7,178	5,609
Gain on sale of assets acquired for leasing		1,274	-
Fee income		494	-
Finance income		1,137	859
Share of profit of equity-accounted investees	10	192	2,261
Gain on sale of development properties		-	411
Gain on sale of investment in real estate		-	2,380
Other income	17	3,223	2,137
Total Income		**19,339**	23,708
Expenses			
Staff cost	18	6,420	6,952
Finance expense on placements and financing liabilities		1,204	797
Foreign exchange (gains) / losses		(2)	479
Depreciation and amortization		150	177
Other operating expenses	19	4,679	5,852
Total Expenses		**12,451**	14,257
Profit before fair value changes and impairment allowances		**6,888**	9,451
Fair value loss on investment securities, net	7	(2,322)	(9,085)
Impairment allowances	20	(52,297)	(14,701)
Loss for the year		**(47,731)**	(14,335)
Attributable to:			
Shareholders of Bank		(49,385)	(16,218)
Non-controlling interests		1,654	1,883
		(47,731)	(14,335)

The consolidated financial statements consisting of pages 27 to 62 were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:



Tareq Sadeq

Chairman

Abdulkarim Bucheery

Vice chairman

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

Consolidated Statement of changes in Owners' Equity

For the year ended 31 December 2016

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

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

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

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

1. INCORPORATION AND ACTIVITIES

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

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

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

Consolidated financial statements

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

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

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

* Sold during 2016

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

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

c) Basis of consolidation

i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

2. BASIS OF PREPARATION (CONTINUED)

c) Basis of consolidation (continued)

i) Subsidiaries (continued)

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

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

Loss of control

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

Non-controlling interests

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

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

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

ii) Investment in associates (Equity-accounted investees)

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

c) Basis of consolidation (continued)

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

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

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

iii) Transactions eliminated on consolidation and equity accounting

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

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

d) Business combination

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

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

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

e) Restatement

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

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

2. BASIS OF PREPARATION (CONTINUED)

e) Restatement (continued)

The impact of restatement is given below:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

a) Foreign currency transactions

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

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

Other group companies

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

b) Investment securities

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

(i) Classification

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

Debt-type instruments

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

At fair value through income statement (FVTIS)

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

At amortised cost

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

Equity-type instruments

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

At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments held-for-trading and those designated on initial recognition at FVTIS.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Investment securities (continued)

(i) Classification (continued)

At fair value through equity (FVTE)

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

(ii) Recognition and de-recognition

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

(iii) Measurement

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

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

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

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

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

c) Placements with financial institutions

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

d) Financing receivables

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

e) Musharaka financing

Musharaka is stated at the fair value of consideration given less any impairment. Musharaka capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of assets results in difference between fair value and book value, such difference is recognised as profit or loss to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Investment in real estate

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

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

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

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

g) Assets acquired for leasing

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

h) Assets held-for-sale and discontinued operations

Classification

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

If the criteria for classification as held-for-sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held-for-sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, recognised or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and investment property carried at fair value, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated income statement. Gains are not recognised in excess of any cumulative impairment loss.

Measurement

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

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Impairment of assets

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

Financial assets carried at amortised cost

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

Investments carried at fair value through equity (FVTE)

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

For equity type instruments carried at cost due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the expected recoverable amount is assessed to be below the carrying amount of the investment. All impairment losses are recognised through the consolidated income statement and is not reversed.

Other non-financial assets

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

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

j) Financing liabilities

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

k) Placements from financial Institutions.

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

l) Share capital and reserves

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

Statutory reserve

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

m) Cash and cash equivalents

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Revenue recognition

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

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

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

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

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

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

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

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

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

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

o) Earnings prohibited by Shari'a

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

p) Zakah

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

q) Employees benefits

(i) Short-term benefits

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

(ii) Post employment benefits

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

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

r) Dividends and other appropriations

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

s) Provisions

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Contingent liabilities and contingent assets

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

u) Leases

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

v) Onerous contracts

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

w) Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

x) Offsetting of financial instruments

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgement

Classification of investments

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

Special Purpose Entities

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

Estimations

Fair value of financial instruments

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Estimations (continued)

Fair value of financial instruments (continued)

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

Impairment on investments carried at fair value carried through equity

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

Useful lives and residual values of assets acquired for leasing

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

Fair value of investment in real estate

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

Impairment of receivables

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

Impairment of non-financial assets

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

5. FINANCING RECEIVABLES

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

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

6. RECEIVABLE FROM IJARAH INVESTORS

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

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

7. INVESTMENT SECURITIES

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

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

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

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

8. ASSETS ACQUIRED FOR LEASING

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

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

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

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

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

Income of assets acquired for leasing:

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

9. INVESTMENT IN REAL ESTATE

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

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

10. EQUITY-ACCOUNTED INVESTEES

Investment in associates comprise:

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

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

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

10. EQUITY-ACCOUNTED INVESTEES (CONTINUED)

Summarised financial information of associates that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group and related subsequent acquisition accounting adjustment (based on most recent management accounts):

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

11. OTHER ASSETS

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

12. FINANCING LIABILITIES

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

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

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

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

13. LIABILITIES RELATED TO ASSETS ACQUIRED FOR LEASING

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

The maturity profile of the liabilities is as given below:

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

14. OTHER LIABILITIES

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

15. SHARE CAPITAL

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

16. INCOME FROM INVESTMENT SECURITIES

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

17. OTHER INCOME

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

18. STAFF COST

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

19. OTHER OPERATING EXPENSE

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

20. IMPAIRMENT ALLOWANCES

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

21. CONCENTRATION OF ASSETS AND LIABILITIES

a) Geographic region

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

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

31 December 2015	Middle East	Europe	Africa	North America	Others	Total
Assets						
Cash and balances with banks	9,782	3,320	-	-	117	13,219
Placements with financial institutions	2,002	-	-	-	-	2,002
Financing receivables	6,811	-	8,000	-	162	14,973
Receivable from Ijarah investors	15,662	-	-	-	-	15,662
Investment securities	175,565	25,715	3,312	-	2,513	207,105
Assets acquired for leasing	71,408	-	113,623	-	-	185,031
Investment in real estate	30,034	-	-	-	-	30,034
Equity-accounted investees	12,500	-	-	-	-	12,500
Other assets	2,116	19	130	6,509	255	9,029
Total assets	325,880	29,054	125,065	6,509	3,047	489,555
Liabilities						
Placements from financial institutions	2,662	-	-	-	1,501	4,163
Financing liabilities	16,185	10,036	-	-	-	26,221
Liabilities related to assets acquired for leasing	-	-	-	143,828	-	143,828
Other liabilities	9,751	-	861	-	1,151	11,763
Total liabilities	28,598	10,036	861	143,828	2,652	185,975

21. CONCENTRATION OF ASSETS AND LIABILITIES (CONTINUED)

b) Industry sector

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

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

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

22. MATURITY PROFILE OF ASSETS AND LIABILITIES

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

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

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

23. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

31 December 2016	Associates	Directors/ key Management personnel Shari'a board members	Major shareholders / entities in which directors are interested	Assets under management	Total
Assets					
Cash and balances with banks	-	-	15	-	15
Financing receivables	-	-	-	6,746	6,746
Receivable from Ijarah investors	-	-	-	15,185	15,185
Investment securities	10,150	-	-	-	10,150
Equity-accounted investees	4,742	-	-	-	4,742
Other assets	5	-	-	-	5
Liabilities					
Due to investors	-	-	-	-	-
Other liabilities	83	1,209	12	545	1,849
Off-balance sheet					
Commitments	-	-	-	7,069	7,069

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

23. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

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

2015	Associates	Directors / key management personnel Shari'a board members	Major shareholders / entities in which directors are interested	Assets under management	Total
Income					
Finance income	-	-	-	655	655
Share of profit / (loss) of equity-accounted investees	2,261	-	-	-	2,261
Fair value loss	-	-	(4,725)	-	(4,725)
Income from investment banking services	-	-	-	261	261
Other income	-	-	-	-	-
Expenses					
Staff cost	-	611	-	-	611
Other expenses	-	1,026	-	-	1,026
Finance expense	-	-	-	655	655
Impairment allowances	2,229	-	-	376	2,605

24. COMMITMENTS

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

25. FINANCIAL RISK MANAGEMENT

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

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

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

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

Risk Management and Governance Structure

Board of Directors

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

Audit, Risk & Compliance Committee

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

Shari'a Supervisory Board

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

Asset and Liability Committee

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

Investment, Credit & Risk Committee

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

Risk Management Department

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

Internal Audit

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk Management and Reporting Structure

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

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

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

a) Credit risk

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

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

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

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

Maximum exposure to credit risk

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

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Credit quality per class of financial assets

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

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

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

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group seeks to manage the concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

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

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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

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

Aging analysis of past due but not impaired

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

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

b) Liquidity risk

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

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

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

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

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Liquidity risk (continued)

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

c) Market risks

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

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

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

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

Currency risk

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

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

Equity price risk

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

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

Prepayment risk

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risks (continued)

Profit rate risk in banking book

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

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

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

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

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Operational Risk

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

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

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

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

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Valuation techniques

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

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

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

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

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

26. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

Movements in level 3 financial instruments

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

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

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

Transfers between level 1, level 2 and level 3

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

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

27. SHARI'A SUPERVISORY BOARD

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

28. EARNINGS PROHIBITED BY SHARI'A

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

29. ASSETS UNDER MANAGEMENT

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

30. CAPITAL MANAGEMENT

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

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

- Tier 1 capital: includes CET1 and AT1

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

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

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

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

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

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

30. CAPITAL MANAGEMENT (CONTINUED)

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

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

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

31. SOCIAL RESPONSIBILITY

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

32. COMPARATIVES

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

Disclosures Required Under the PD Module of the CBB Rulebook

For the year ended 31 December 2016

CONTENTS

1. INTRODUCTION

The disclosures under this section have been prepared in accordance with the CBB requirements outlined for Islamic banks in its Public Disclosure Module, of Volume 2 of the CBB rulebook (the 'PD Module"). Rules concerning the disclosures under this section are applicable to Ibdar Bank B.S.C. (c) (Ibdar/the "Bank") being a locally incorporated Bank with a wholesale Islamic Investment banking license and subsidiaries (together known as "the Group"). This document should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016 and the qualitative disclosures in the annual report for the year ended 31 December 2016. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Bank for the year ended 31 December 2016. Information already included in the consolidated financial statements are not repeated.

1.1 Pillar I – Minimum Capital Requirements

Pillar I deals with the rules for the computation of regulatory capital requirements in respect of credit, market and operational risk. It defines the various classes of assets and the calculation of Risk Weighted Assets (RWAs) in respect of each class of assets. The capital adequacy ratio is calculated as the ratio of the Bank's regulatory capital to its total risk weighted assets. All Bahrain incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12.5%.

1.1.1 Credit risk

The Bank has adopted the standardized approach under which on and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. Under the standardized approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB.

1.1.2 Market risk

The Bank has adopted the Standardized approach for determining the market risk capital requirement.

1.1.3 Operational risk

The Bank has adopted the basic indicator approach for operational risk. It is calculated by applying a co-efficient of 15 percent to the average gross income for the preceding three financial years.

1.2 Pillar II – The Supervisory Review and Evaluation Process

Pillar II involves the process of supervisory review of Bank's risk management framework and capital adequacy. It requires banks to hold additional capital for risks not covered by Pillar I. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, business risk and concentration risk.

Pillar II comprises of an Internal Capital Adequacy Assessment Process (ICAAP) and supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the Bank is exposed. The Bank has established an ICAAP which quantifies the capital requirements for the key risks that the Bank is exposed to including credit, investment, liquidity, strategic, reputation, operational, and concentration risks. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which are considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

1.3 Pillar III – Market Discipline

Pillar III is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

1.3.1 Pillar II quantitative and qualitative disclosures

For the purpose of computing regulatory minimum capital requirements, the Bank follows the rules as laid out under the CBB Rulebook module CA: Capital Adequacy.

There are no restrictions on the transfer of funds or regulatory capital within the group and all investments are made fully complying with the CBB approval instructions.

1. INTRODUCTION (CONITNUED)

1.4 Overall Risk and Capital Management

The consolidated financial statements of the Group has been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Bahrain Commercial Companies Law.

In the consolidated financial statements, subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continues to be consolidated until the date that control ceases.

For the purpose of computing the Capital Adequacy Ratio ("CAR") the Bank is not consolidating subsidiaries that are Commercial Entities.

The Bank does not hold any interest in insurance entities.

1.5 Compliance with High Level Control (PD-1.3.10(x))

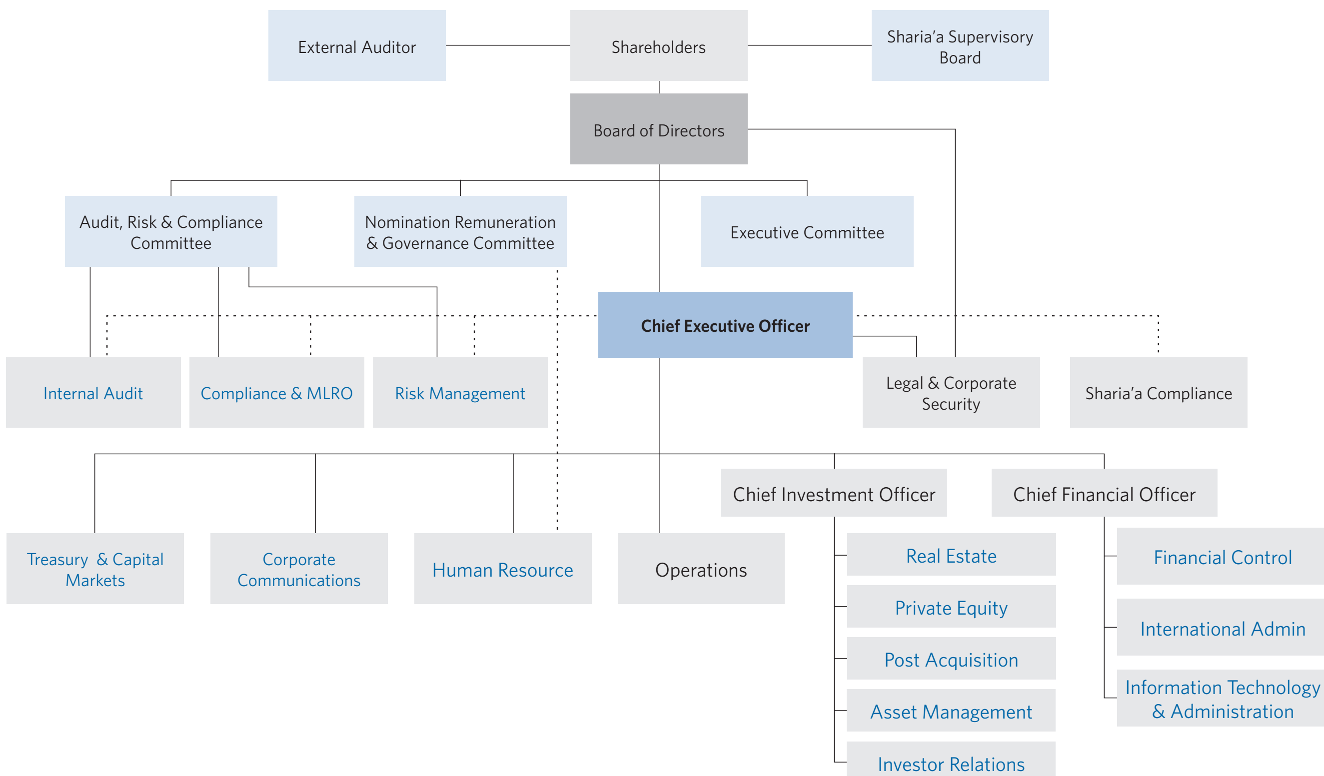
In October 2010, CBB introduced requirements to Module (HC Module) that have to be met by all licensees with respect to, corporate governance principles to be in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry and Commerce; International best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision; and related high-level controls and policies. The Group made detailed self-assessments on the revised content of HC Module to ensure compliance with the new requirements with specific milestones for implementation of any shortfalls.

2. RISK MANAGEMENT STRUCTURE

The Board has the ultimate responsibility for understanding the nature and level of risk taken by the Bank. The Board is responsible for reviewing the strategy and objectives of the Bank with respect to various risks and ensures that there is a clear guidance regarding the level of risks acceptable to the Bank.

Figure 1 Group Organization Structure (PD-1.3.10(a))

Ibdar Bank Structure



As at 31 December 2016 Chief Executive officer position is vacant.

2. RISK MANAGEMENT STRUCTURE (CONITNUED)

2.1 Board of Directors (PD - 1.3.10 (n) and PD - 1.3.10 (o))

The Board is responsible for establishing objectives for the Bank and developing the strategies that direct the ongoing activities of the Bank to achieve those objectives. The Board is in process of reviewing and approving the Bank's strategy document which demonstrates that it is able to proactively identify and understand the risks that the Bank faces in achieving its business objectives through its business strategies and plans.

As part of its strategy review process, the Board at the minimum shall: (PD-1.3.10(n, o)):

a. Review major strategy papers and business plans;
b. Set performance objectives;
c. Oversee major capital expenditures and acquisitions;
d. Reassess annually the Bank's objectives, strategies and plans;
e. Demonstrate its responsibility to supervisors, shareholders, employees & other stakeholders; and
f. Monitor the control environment and risk profile of the Bank.
g. Approve financial statements of the Bank.

Detailed responsibilities of the Board are provided in the Bank's Articles of Association.

The Board has approved authority matrix which authorizes the senior management/committees to approve certain transactions. However, transactions which are beyond the authority matrix require Board or Excom approval.

The Board of Directors has delegated the management of the Bank to the Executive Management, comprising of Chief Executive Officer, Chief Investment Officer and Chief Financial Officer, who meet on a regular basis to discuss any issues and updates regarding operations and business of the Bank. The following sub-committees of the Board are involved in managing the risk and ensuring the compliance with the Bank's policies and risk management framework.

2.2 Board Committees

2.2.1 Executive Committee

2.2.1.1 Objective/Function

Consider specific matters delegated to it by the full Board and make recommendations thereon to the Board or decisions based on authorities specifically delegated by the Board.

2.2.1.2 Members

Abdulkarim Bucheery	Independent
Ebrahim Al Jassmi	Independent
Hamad Al Sejari	Executive
Jassem Al Yaseen	Executive

2.2.2 Audit, Risk & Compliance Committee

2.2.2.1 Objective/Function

To review the Banks financial reporting process, internal controls, and process for monitoring compliance with policies, procedures, laws and regulations and the Bank's own Code of Business Conduct.

In 2016, the Audit Committee and Risk Committee merged to form the Audit, Risk & Compliance Committee

2.2.2.2 Members

Dr. Ahmed Al Balooshi*	Independent
Khalid Al Maarafi	Executive
Abdulaziz Al Afalaq	Independent

* Submitted resignation on 27 February 2017.

2. RISK MANAGEMENT STRUCTURE (CONITNUED)

2.2 Board Committees (Conitnued)

2.2.3 Nomination, Remuneration & Governance Committee

2.2.3.1 Objective/Function

The Nomination, Remuneration & Governance Committee reviews and approves (according to the guidelines set by the Board) policies and procedures for the remuneration of Board members, Committees members, executive and non-executive employees.

2.2.3.2 Members

Tareq Sadeq	Independent
Mohamed Nooruddin	Independent
Jamal Al Saleem	Non-Executive

2.3 Management Committees

The following committees are the two management committees at Ibdar which are involved in managing and overseeing the Bank's activities, and in proposing new strategies, policies, and procedures to the Board. These Committees are:

2.3.1 Asset and Liability Committee

2.3.1.1 Objective/Function

The Asset and Liability Committee determines the appropriate levels of liquidity, and ensures that all future commitments are funded in the most appropriate and cost-efficient manner. The Committee also ensures that the Bank fully adheres to the requirements of the CBB regarding capital, liquidity, and mismatched risk. It ascertains that approved investment deposits limits are not exceeded, and Treasury management and dealing activities are within the policy guidelines set by the Board. Furthermore, it monitors and supervises the overall balance sheet structure.

2.3.1.2 Members

Chief Executive Officer - (currently vacant)	Chairman
Chief Investment Officer	Member
Chief Financial Officer	Member
Head of Treasury and Capital Market - (currently vacant)	Member
Head of Risk Management	Member

2.3.2 Investment, Credit and Risk Committee

2.3.2.1 Objective/Function

The Investment, Credit and Risk Committee is a senior management committee responsible for managing and supervising all activities related to investments, credit and risk management.

2.3.2.2 Members

Chief Executive Officer - (currently vacant)	Chairman
Chief Investment Officer	Member
Chief Financial Officer	Member
Head of Risk Management	Non Voting Member
Head of Legal	Non Voting Member
Head of Treasury and Capital Market - (currently vacant)	Non Voting Member

3. CAPITAL ADEQUACY

The primary objective of the Group's capital management is to ensure that the Group maintains adequate risk capital, complies with the capital requirements laid down by the CBB and maintains a healthy capital ratio in order to support its business and maximize shareholder value.

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") as adopted by the CBB in supervising the Bank.

Regulatory capital consists of Common Equity Tier 1 capital ("CET1"), Additional Tier 1 Capital ("AT1") and Tier 2 capital (supplementary capital). The Group's Tier 1 comprises share capital, general reserves, statutory reserves, retained earnings/accumulated losses and unrealized gains and losses arising from fair valuing equities. Tier 2 includes asset revaluation reserve - property, plant and equipment and the general financing loss provisions. From the regulatory perspective, the significant amount of the Bank's capital is in Tier 1 form.

3. CAPITAL ADEQUACY (CONITNUED)

The Group's approach to assessing capital adequacy has been in line with its risk appetite aligned with its current and future activities. To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardized Approaches for its Credit Risk and Market Risk, and the Basic Indicator Approach for its Operational Risk.

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

Further the Bank monitors the CAR against an Internal Trigger Ratio of 20% compared to the required capital of 12.5% under CBB rulebook. If the ICAAP CAR touches the Internal Trigger Ratio, the Bank will initiate action to reduce its risk or increase capital before the Internal Target Ratio is breached.

Basis of Consolidation for Accounting and Regulatory Purposes

For the purpose of preparation of consolidated financial statements, the Bank consolidates all subsidiaries which are fully owned or exercises significant control over them. These subsidiaries are consolidated from date of acquisition being the date on which the group obtains control and continues until the control ceases. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. For regulatory purposes the Bank should consolidate all banking and other financial entities which are considered to be subsidiaries of the Bank. The treatment of the Bank's investments in all entities for the purpose of regulatory reporting is risk weighting of investment exposure. The principal subsidiaries and associates are as follows:

Subsidiaries	Country of incorporation	Total Assets	Total Liabilities	Description
Elaf Corporate Services Limited	British Virgin Islands	1,061	(17,566)	A company established to manage affiliated companies
Tamkeen Investment Company BSC	Kingdom of Bahrain	11,553	2,653	Administer Management Incentive Program ("MIP")
Suffun Bahrain W.L.L.	Kingdom of Bahrain	3,722,129	3,710,978	Investment holding company
Medical Management Group SPC*	Kingdom of Bahrain	42	(17,938)	SPV to invest in health care
Q400 Aviation Company III	British Virgin Islands	24,699,636	7,203,626	Purchase and lease of aircraft to airline company
Q400 Aviation Company IV	British Virgin Islands	24,533,638	7,162,450	
Q400 Aviation Company V	British Virgin Islands	24,256,589	6,942,834	
Cumberland Palace Proj Co	British Virgin Islands	7,390,553	7,390,553	Investment holding vehicle for real estate development
PKV Investment Company Limited	Cayman Islands	76,996,134	27,354,769	Investment holding vehicle for property lease

Associates	Country of incorporation	Description
Aqari Real Estate Company BSC (c)	Kingdom of Bahrain	Invest in income generating residential, office and commercial real estate assets
Skaugen Gulf Petchem Carriers BSC (c)	Kingdom of Bahrain	Petrochemical shipping company with vessels operating through the Norgas Pool
MENA Energy Limited	Kingdom of Saudi Arabia	Investment company holding a stake in an electrical services contracting company

* The Bank has a commitment of USD 18 thousands towards the equity shortfall. The Bank is in the process of liquidating this subsidiary.

3. CAPITAL ADEQUACY (CONITNUED)

3.1 Composition of capital disclosure

Table – 1. Statement of financial position under the regulatory scope of consolidation

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	31 December 2016		
	Statement of financial position as in published financial statements (USD '000)	Statement of financial position as per regulatory reporting (USD '000)	Reference
Assets			
Cash and balances with banks	5,151	5,098	
Placements with financial institutions	7,902	7,902	
Financing receivables	6,915	6,915	
Receivable from ijarah investors	15,185	15,185	
Investment securities	158,561	212,185	
Of which related to insignificant investments in financial entities under CET1	-	26,864	E
Of which related to significant investments in financial entities under CET1	-	13,331	F
Of which related to other investments	-	171,990	
Assets acquired for leasing	68,602	-	
Investment in real estate	107,264	30,205	
Equity-accounted investees	4,742	1,073	
Other assets	13,603	2,897	
Total assets	**387,925**	**281,460**	
Liabilities			
Placements from financial institutions	6,503	6,503	
Financing liabilities	73,273	23,993	
Liabilities related to assets acquired for leasing	52,181	-	
Other liabilities	13,963	14,963	
Of which related to collective impairment provisions	-	225	G
Of which related to other liabilities	-	14,738	
Total liabilities	**145,920**	**45,459**	
Shareholders' Equity			
Share capital	300,000	300,000	A
Statutory reserve	676	676	C
Accumulated losses	(66,634)	(69,903)	B
Property fair value reserve	610	610	
General reserve	4,618	4,618	D
Equity attributable to shareholders of the Bank	**239,270**	**236,001**	
Non-controlling interests	2,735	-	
Total owners' equity	**242,005**	**236,001**	
Total liabilities and owners' equity	**387,925**	**281,460**	

3. CAPITAL ADEQUACY (CONITNUED)

3.1 Composition of capital disclosure (Continued)

Table – 2. Composition of regulatory capital

The table below provides a detailed breakdown of the bank's regulatory capital components, including all regulatory adjustments. The table also provides reference to the comparison displayed in Table 1 between accounting and regulatory statement of financial positions.

	31 December 2016		
	Components of regulatory capital (USD '000)	Amounts subject to pre-2015 treatment (USD '000)	Reference
Common Equity Tier 1 capital: instruments and reserves			
Directly issued qualifying common share capital plus related stock surplus	300,000	-	A
Retained earnings	(69,903)	-	B
Accumulated other comprehensive income (and other reserves)	5,294	-	C+D
Common Equity Tier 1 capital before regulatory adjustments	**235,391**	**-**	
Common Equity Tier 1 capital: regulatory adjustments			
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(2,038)	26,864	E
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	13,331	F
Regulatory adjustments applied to common equity Tier 1 in respect of amounts subject to pre-2015 treatment	(1,330)	-	
Total regulatory adjustments to Common equity Tier 1	**(3,368)**	**40,195**	
Common Equity Tier 1 capital (CET1)	**232,023**		
Additional Tier 1 capital (AT1)	**-**		
Tier 1 capital (T1 = CET1 + AT1)	**232,023**		
Tier 2 capital: instruments and provisions			
Provisions	225		G
Tier 2 capital before regulatory adjustments	**225**		
Tier 2 capital (T2)	**225**		
Total capital (TC = T1 + T2)	**232,248**		
Risk weighted assets in respect of amounts subject to pre-2015 treatment	**64,832**		
Of which: Insignificant investments in the common shares of financial entities <10% - Listed (RW at 100%)	13,591		
Of which: Insignificant investments in the common shares of financial entities <10% - Unlisted (RW at 150%)	17,914		
Of which: Significant investment in the common shares of financial entities >10% (RW at 250%)	33,328		
Total risk weighted assets	**678,874**		
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets)	**34.18%**		
Tier 1 (as a percentage of risk weighted assets)	**34.18%**		
Total capital (as a percentage of risk weighted assets)	**34.21%**		
National minima including CCB (where different from Basel III)			
CBB Common Equity Tier 1 minimum ratio	6.50%		
CBB Tier 1 minimum ratio	8.00%		
CBB total capital minimum ratio	10.00%		

3. CAPITAL ADEQUACY (CONITNUED)

3.1 Composition of capital disclosure (Continued)

Disclosure template for main feature of regulatory capital instruments as at 31 December 2016:

1	**Issuer**	Ibdar Bank BSC (c)
2	**Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)**	NA
3	**Governing law(s) of the instrument**	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Equity shares
8	**Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)**	USD 300 million
9	**Par value of instrument**	USD 1.00
10	**Accounting classification**	Shareholder's equity
11	**Original date of issuance**	31 December 2012
12	**Perpetual or dated**	Perpetual
13	Original maturity date	No maturity
14	**Issuer call subject to prior supervisory approval**	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	NA
23	**Convertible or non-convertible**	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	**Write-down feature**	NA
31	If write-down, write-down trigger (s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	**Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)**	NA
36	**Non-compliant transitioned features**	NA
37	**If yes, specify non-compliant features**	NA

3. CAPITAL ADEQUACY (CONITNUED)

3.1 Composition of capital disclosure (Continued)

Table – 3. Capital requirement by type of Islamic financing contracts (PD - 1.3.17)

The following table summarizes the capital requirements by type of Islamic financing contracts:

	31 December 2016	
	Risk Weighted Amount (USD '000)	Capital requirements (USD '000)
Type of Islamic financing contracts		
Mudaraba	5,002	625
Murabaha	6,746	843
Musharaka	169	21
Sukuk	47,896	5,987
	59,813	**7,477**

	31 December 2016		
	On- & Off Balance Sheet Credit Exposures before CRM (USD '000)	Credit Risk Weighted Assets (USD '000)	Capital requirements (USD '000)
Claims on Sovereigns	28,044	-	-
Claims on PSEs	14,347	14,347	1,793
Claim on banks	13,022	2,638	330
Claim on Corporations	603	603	75
Past Due Facilities	169	169	21
Investments in Equity Securities and Equity Sukuk	97,674	152,977	19,122
Holding of Real Estate	84,146	276,146	34,518
Other assets	28,834	161,886	20,236
	266,839	**608,765**	**76,095**

Table – 4. Capital requirement for Market risk (PD–1.3.18)

The following table summarizes the amount of exposures subject to the standardized approach of market risk and related capital requirements:

	31 December 2016 (USD '000)
Market Risk - Standardized Approach	
Price Risk	-
Equity Position Risk	-
Sukuk Risk	1,140
Foreign exchange risk	2,017
Commodities Risk	**-**
Total of market risk - standardized approach	**3,157**
Multiplier	**12.5**
Total Market Risk Weighted Exposures	**39,463**
Minimum capital requirement (12.5%)	**4,933**

3. CAPITAL ADEQUACY (CONITNUED)

3.1 Composition of capital disclosure (Continued)

Table – 5. Capital Requirements for Operational risk (PD-1.3.19 and PD-1.3.30)

The following table summarizes the amount of exposures subject to the basic indicator approach of operational risk and related capital requirements:

			31 December 2016 (USD '000)
Indicators of operational risk			
Year	**2015**	**2014**	**2013**
Gross Income	22,911	12,826	13,297
Average gross income			**16,345**
Multiplier			**12.5**
			204,308
Eligible Portion for the purpose of the calculation			**15%**
Total operational Risk Weighted Exposures			**30,646**
Minimum capital requirement (12.5%)			**3,831**

4. RISK MANAGEMENT

4.1 Overview

4.1.1 Bank-wide Risk Management Objectives

The risk management objective for each area of risk is to adopt the industry best practices and adhere to Basel II and CBB requirements. The Bank identifies, captures, monitors and manages different dimensions of risk with the aim to protect asset values and income streams, and to optimize the Bank's shareholder return, while maintaining its risk exposure within defined parameters. The Bank's management believes in the proactive management of risk in the full cycle of a financial transaction including its operating circumstances from the origination stage to its final disposal from the books of the Bank.

The Bank reviews and redefines its risk appetite according to the evolving business plan of the Bank, which includes fluctuations in economic and market conditions and future forecasts.

4.1.2 Strategies Processes and Internal Controls

The Bank's risk strategy, backed by appropriate limit structures, is articulated through risk management policies and procedures. These policies and procedures are an integral part of an enterprise-wide integrated risk management framework at the Bank. These policies and procedures identify risk objectives, processes, strategies and risk governance both at the board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses. Limit structures serve as a key component in articulating risk strategy in quantifiable risk appetite. In addition, the Bank intends to implement various risk systems to help quantify not just the regulatory capital but also the economic capital allocated to various portfolios.

The Bank is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework encapsulates the spirit behind Basel II, which includes management oversight & control, risk culture & ownership, risk recognition & assessment, control activities, adequate information & communication channels, monitoring risk management activities and correcting deficiencies.

Credit Risk

The Bank manages its credit risk exposures by assessing the credit worthiness of all customers & counterparties. For each new product & activity, the Bank evaluates credit risk introduced by it. The Bank has established a limit structure to avoid concentration of risks for counterparty, sector and geography.

Market Risk

The Bank is not exposed to significant market risk due to the nature of its activities and its limited market risk exposure is managed through combination of limits, internal controls & processes. The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

4. RISK MANAGEMENT (CONITNUED)

4.1 Overview (Continued)

Operational Risk

The Bank has established a Risk Control and Self Assessment ("RCSA") process necessary for identifying and measuring and controlling its operational risks. This exercise covers the Bank's business lines and associated critical activities, exposing the Bank to operational risks.

Equity Risk in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. The Group manages and monitors its equity risk using sector, geography and investment type limits.

The strategy used has been effective throughout the year.

Profit Rate Risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group manages its profit rate risk using various risk management tools and methodologies.

Displaced Commercial Risk

Displaced Commercial Risk ("DCR") refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Bank does not have DCR as it does not have any Restricted or Unrestricted Investment Accounts.

4.1.3 Risk Measurement and Reporting System

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

The Risk Management Department ("RMD") presents reports to the Board of Directors through ICRC and ARCC. These reports include risk and investment review of Group's portfolio and its impact on Group's capital adequacy.

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

4.2 Credit risk

4.2.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

The Group is not involved in the granting of credit facilities in the normal course of its business activities. The credit risk exposures faced by the Group are principally in respect of its placements with other financial institutions and in respect of investment related funding made to projects. The investment related funding exposures arise in the ordinary course of its investment banking activities. All such exposures are reviewed periodically for recoverability and specific provisions made where necessary having regard to the nature of the exposure and the assessment of collection. The Group uses the Standardized Approach for measuring its credit risk. The Group uses ratings from External Credit Assessment Institutions recognized by the CBB for its Group counterparty exposures, wherever available.

Counterparty limits are established by the use of a comprehensive approval process. All lines of counterparty credit limits are subject to annual reaffirmation by the Board of Directors. The limits are also reviewed frequently to ensure consistency with the Group's risk appetite and to take into account the latest market developments. Given the nature of the Group's business, the Group uses nominal balance sheet amounts including accrued interest and other receivables as its measure of exposure.

4. RISK MANAGEMENT (CONITNUED)

4.2 Credit risk (Continued)

4.2.2 Types of Credit Risk

Financing receivables mainly comprise of Murabaha (International Commodity) and Musharaka.

4.2.2.1 Murabaha (International Commodity)

A commodity Murabaha is a contract between the Bank and its client for the sale of goods at a price plus an agreed profit margin for the Bank. The instrument is called an international commodity Murabaha because the profits are made on the international buying and selling of a commodity, usually metal, such as copper, aluminum or lead.

4.2.2.2 Musharaka

Musharaka financing is partnership in which the Group contributes capital. These are stated at the fair value of consideration given less impairment.

4.2.3 Past Due and Impaired Islamic Financing

The Group defines non-performing facilities as the facilities where the principal or profit is overdue for a period of 90 days or more. These exposures are placed on a non-accrual status with income being recognized to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue installments and payments.

As a policy, the Group has placed on a non-accrual status any facility where there is reasonable doubt about the collectability of the receivable irrespective of whether the customer concerned is currently in arrears or not.

Financing receivables are stated at cost less impairment allowances. Specific provisions are created for impairment where losses are expected to arise on non-performing contracts. These assets are written off when they are considered to be uncollectable to reduce all impaired assets to their expected realizable values. Deferred income and provision for impairment are netted off against the related receivables. The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired.

Impairment losses on murabaha receivables and debt-type instruments at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognized in the consolidated statement of income and reflected in an allowance account against murabaha receivables and debt-type instruments at amortized cost. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

As of 31 December 2016, musharaka financing which amounts to USD 169 thousand is due from a financial institution located in South East Asia and is outstanding for a period of one to five years. Subsequent to year ended 31 December 2016, significant portion of this amount was received. In addition, Murabaha financing relating to energy sector located in Africa which amounts to USD 8,376 thousand is outstanding for a period of less than one year and has been fully provided for.

4.2.4 External Credit Assessment Institutions (ECAI)

To assess the creditworthiness of Financial Institutions ("FI") the Group relies on external ratings by ECAI like Standard & Poor's, Fitch and Moody's. In case of unrated FIs, the Group will assess the credit risk on the basis of its internally developed approach & methodology. The Bank uses ECAI's for due from financial institutions and its sukuk portfolio carried at amortised cost.

4.2.5 Definition of Geographical Area

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

4.2.6 Concentration Risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector or geographic region. As per CBB's single obligor regulations, Banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. In case any exposure exceeds the CBB's prescribed limits, Group obtains approval from the CBB. Currently, the Bank does not have any exposure that exceeds this threshold.

4. RISK MANAGEMENT (CONITNUED)

4.2 Credit risk (Continued)

4.2.7 Credit Risk Mitigation

Credit risk mitigation is defined as the utilization of a number of techniques, such as collaterals and guarantees to mitigate the credit risks that the Group is exposed to. The Group's first priority when establishing Islamic financing is to determine the borrower's capacity to repay and not to rely principally on security or collateral. Nonetheless, the Group is in the process of developing its collateral management policy which would be in line with its business activities.

4.2.8 Counterparty Credit Risk

4.2.8.1 Introduction

A counterparty is defined as an obligor (individual, company, other legal entity), a guarantor of an obligor, or person receiving funds from the Group. It also includes the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

The measure of exposure reflects the maximum loss that the Group may suffer in case the counterparty fails to fulfill its commitments. Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. Large exposure is any exposure whether direct, indirect or funded by restricted investment accounts to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's Capital Base. The Group has adopted Standardized Approach to allocate capital for counterparty credit risk.

4.2.8.2 Credit Limit Structure

The Bank has put in place an internal counterparty limit structure which is based on internal or external ratings for different types of counterparties. The Bank has also set concentration limits as a percentage of shareholders equity. In case of a counterparty rating degrade, the Bank may require further collateral or advise the counter party to reduce its exposure on a case by case basis.

Reporting

The Bank reports large counterparty exposures to CBB and senior management on periodic basis. The Bank reports the exposures on a gross basis without any offset. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Bank has a legally enforceable right to do so.

Early warning indicators

The Bank maintains a strong focus on identification of signs of deterioration in credit quality at an early stage in order to take remedial measures before the facility becomes substandard or doubtful.

4.2.8.3 Connected counterparties

Connected counterparties includes companies or persons connected with the bank, including, in particular, subsidiaries and associated companies (whether such association is due to control or shareholding or otherwise), Directors and their associates (whether such association is due to control or family links or otherwise), members of the Shari'a Supervisory Board, management and other staff, and shareholders holding 10% or more of the voting power of the bank.

As a strategy, exposure to connected counterparties may be undertaken only when negotiated and agreed on an arm's length basis. The Bank shall not assume any exposure to its external auditors or members of Shari'a Supervisory Board. The disclosure relating to related party transactions has been made in the consolidated financial statements. All related party transactions have been executed at arm's length basis.

4.2.8.4 Highly Leverage Counterparties

The Bank assess counterparties through financial and non-financial due diligence and uses CBB's definition of Highly Leveraged Counterparties to determine exposure to them. The Bank is not exposed to any Highly Leveraged Counterparties.

4.2.8.5 Restructuring of Credit Facilities

During the year ended 31 December 2015, credit facilities amounting to USD 6.8 million were restructured. Restructuring concessions mainly related to deferral of loan installments to realign the repayment with the borrowers'/projects' revised cash flow projections. As of 31 December 2016, balance outstanding of such restructured facilities is USD 6.7 million.

No facilities were restructured during the year 2016.

4. RISK MANAGEMENT (CONITNUED)

4.2 Credit risk (Continued)

4.2.8 Counterparty Credit Risk (Continued)

4.2.8.6 Recourse Transactions

The Bank does not currently have any obligations with respect to recourse transactions.

Table – 6.1 Breakup of provision by industry for financing receivables exposures (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Trading & Manufacturing (USD '000)	Banks & Financial Institutions (USD '000)	Real Estate (USD '000)	Aviation (USD '000)	Others (USD '000)	Total (USD '000)
Specific Provision	-	234	-	-	8,376	**8,610**
Collective Provision	-	-	225	-	-	**225**

Table – 6.2 Breakup of provision by geographical area for financing receivables exposures (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Middle East (USD '000)	Europe (USD '000)	Africa (USD '000)	South East Asia (USD '000)	Total (USD '000)
Specific Provision	-	-	8,376	234	**8,610**
Collective Provision	225	-	-	-	**225**

Table – 6.3 Reconciliation of changes in provisions (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Opening (USD '000)	Charged/ (reversed) during the year (USD '000)	Closing (USD '000)
Specific Provision	616	7,994	**8,610**
Collective Provision	340	(115)	**225**

Table – 6.4 Past due facilities

As of 31 December 2016, Musharaka financing which amounts to USD 169 thousand is due from a financial institution located in South East Asia and is outstanding for a period of one to three years.

4.2.9 Credit risk mitigation

The credit exposure information presented in table 6 of this report represents gross exposures prior to the application of any credit risk mitigation techniques. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. However, extending credit facilities is not a part of the Bank's core business activities. The Bank's credit risk mainly arises from its investment transactions.

Nonetheless, the Bank intends to develop its collateral management policy and provisioning policy which would be in line with its business activities.

4. RISK MANAGEMENT (CONITNUED)

4.2 Credit risk (Continued)

4.2.9 Credit risk mitigation (Continued)

Table – 7. Credit Risk Exposure (PD-1.3.23(a))

The following table summarizes the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

	31 December 2016	
	Total gross credit exposure (USD '000)	*Average gross credit exposure over the year (USD '000)
Funded exposure		
Cash & balances with banks	5,151	13,327
Placements with financial institutions	7,902	2,726
Financing receivables	6,915	9,035
Assets acquired for leasing	68,602	147,391
Receivable from Ijara investors	15,185	15,364
Investment securities	158,561	180,160
Equity-accounted investees	4,742	6,384
Investment in real estate	107,264	49,484
Other assets	13,603	13,177
Total Funded Exposures	**387,925**	**437,047**
Unfunded exposure		
Uncalled capital commitments in respect of investment	15,953	13,652
Commitment related to project developments	-	33
Operating lease commitments - within one year	242	242
Operating lease commitments - over one year	242	303
Total Unfunded Exposures	**16,437**	**14,230**

*Average balances are computed based on quarter-end balances.

4. RISK MANAGEMENT (CONITNUED)

4.2 Credit risk (Continued)

4.2.9 Credit risk mitigation (Continued)

Table – 8. Credit Risk – Geographic Breakdown (PD-1.3.23(b))

The following table summarizes the geographic distribution of funded and unfunded exposures, broken down into significant areas by major types of credit exposure as of:

	31 December 2016					
	Middle East (USD '000)	Europe (USD '000)	Africa (USD '000)	North America (USD '000)	Others (USD '000)	Total (USD '000)
Funded exposure						
Cash & balances with banks	4,029	1,122	-	-	-	**5,151**
Placements with financial institutions	7,902	-	-	-	-	**7,902**
Financing receivables	6,746	-	-	-	169	**6,915**
Assets acquired for leasing	68,602	-	-	-	-	**68,602**
Receivable from Ijara investors	15,185	-	-	-	-	**15,185**
Investment securities	113,632	27,564	11,017	-	6,348	**158,561**
Equity-accounted investees	4,742	-	-	-	-	**4,742**
Investment in real estate	30,205	4,688	-	72,371	-	**107,264**
Other assets	2,196	2,820	129	8,396	62	**13,603**
Total Funded Exposures	**253,239**	**36,194**	**11,146**	**80,767**	**6,579**	**387,925**
Unfunded exposure						
Uncalled capital commitments in respect of investment	9,169	6,784	-	-	-	**15,953**
Commitment related to project developments	-	-	-	-	-	**-**
Operating lease commitments - within one year	242	-	-	-	-	**242**
Operating lease commitments - over one year	242	-	-	-	-	**242**
Total Unfunded Exposures	**9,653**	**6,784**	**-**	**-**	**-**	**16,437**

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

4. RISK MANAGEMENT (CONITNUED)

4.2 Credit risk (Continued)

4.2.9 Credit risk mitigation (Continued)

Table – 9. Credit risk – Industry Sector Breakdown (PD-1.3.23(c))

The following table summarizes the distribution of funded and unfunded exposure by industry type broken down by major types of credit exposure as of:

	31 December 2016				
	Banks and financial institutions (USD '000)	Real Estate (USD '000)	Aviation (USD '000)	Others (USD '000)	Total (USD '000)
Funded exposure					
Cash & balances with banks	5,151	-	-	-	**5,151**
Placements with financial institutions	7,902	-	-	-	**7,902**
Financing receivables	-	6,746	-	169	**6,915**
Assets acquired for leasing	-	-	68,602	-	**68,602**
Receivable from Ijara investors	-	-	-	15,185	**15,185**
Investment securities	66,240	46,309	3,497	42,515	**158,561**
Equity-accounted investees	-	688	4,054	-	**4,742**
Investment in real estate	-	107,264	-	-	**107,264**
Other assets	422	7,614	3,709	1,858	**13,603**
Total Funded Exposures	**79,715**	**168,621**	**79,862**	**59,727**	**387,925**
Unfunded exposure					
Uncalled capital commitments in respect of investment	-	6,784	-	9,169	**15,953**
Commitment related to project developments	-	-	-	-	**-**
Operating lease commitments - within one year	-	-	-	242	**242**
Operating lease commitments - over one year	-	-	-	242	**242**
Total Unfunded Exposures	**-**	**6,784**	**-**	**9,653**	**16,437**

4. RISK MANAGEMENT (CONITNUED)

4.2 Credit risk (Continued)

4.2.9 Credit risk mitigation (Continued)

Table – 10. Maturity breakdown of credit exposures (PD-1.3.23(g))

The maturity breakdown for balances with banks, placements with financial institutions and financing receivables were based on residual commercial period. For the remaining exposures the residual maturities was determined based on management's expected realization period as of 31 December 2016.

	Up to 3 months (USD '000)	3 months to 1 year (USD '000)	Total up to 1 year (USD '000)	1 to 5 years (USD '000)	5 to 10 years (USD '000)	No fixed maturity (USD '000)	Total (USD '000)
Funded exposure							
Cash & balances with banks	5,151	-	**5,151**	-	-	-	**5,151**
Placements with financial institutions	7,902	-	**7,902**	-	-	-	**7,902**
Financing receivables	-	-	**-**	6,915	-	-	**6,915**
Assets acquired for leasing	-	68,602	**68,602**	-	-	-	**68,602**
Receivable from Ijara investors	-	-	**-**	15,185	-	-	**15,185**
Investment securities	14,244	4,897	**19,141**	12,057	30,458	96,905	**158,561**
Equity-accounted investees	-	-	**-**	-	-	4,742	**4,742**
Investment in real estate	-	-	**-**	-	-	107,264	**107,264**
Other assets	7,927	4,523	**12,450**	803	-	350	**13,603**
Total Funded Exposures	**35,224**	**78,022**	**113,246**	**34,960**	**30,458**	**209,261**	**387,925**
Unfunded exposure							
Uncalled capital commitments in respect of investment	-	15,953	**15,953**	-	-	-	**15,953**
Commitment related to project developments	-	-	**-**	-	-	-	**-**
Operating lease commitments - within one year	-	242	**242**	-	-	-	**242**
Operating lease commitments - over one year	-	-	**-**	242	-	-	**242**
Total Unfunded Exposures	**-**	**16,195**	**16,195**	**242**	**-**	**-**	**16,437**

4. RISK MANAGEMENT (CONITNUED)

4.2 Credit risk (Continued)

4.2.9 Credit risk mitigation (Continued)

Table – 11. Maturity Profile (PD-1.3.38)

The maturity profile of the Group's assets and liabilities are based on contractual repayment arrangements. The contractual maturities of financial assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date. For the remaining assets and liabilities, the maturity is determined based on expected realization/ profit settlement. The consolidated maturity profile at 31 December 2016 was as follows:

2016	Up to 3 months (USD '000)	3 months to 1 year (USD '000)	Total up to 1 year (USD '000)	1 to 5 years (USD '000)	5 to 10 years (USD '000)	No fixed maturity (USD '000)	Total (USD '000)
Assets							
Cash and balances with banks	5,151	-	5,151	-	-	-	**5,151**
Placements with financial institutions	7,902	-	7,902	-	-	-	**7,902**
Financing receivables	-	-	-	6,915	-	-	**6,915**
Receivable from Ijarah investors	-	-	-	15,185	-	-	**15,185**
Investment securities	14,244	4,897	19,141	12,057	30,458	96,905	**158,561**
Equity-accounted investees	-	-	-	-	-	4,742	**4,742**
Investment in real estate	-	-	-	-	-	107,264	**107,264**
Assets acquired for leasing	-	68,602	68,602	-	-	-	**68,602**
Other assets	7,927	4,523	12,450	803	-	350	**13,603**
Total assets	**35,224**	**78,022**	**113,246**	**34,960**	**30,458**	**209,261**	**387,925**
Liabilities							
Placements from financial institutions	6,503	-	6,503	-	-	-	6,503
Financing from a financial institution	8,301	-	8,301	15,692	49,280	-	73,273
Finance of assets acquired for lease	1,272	3,816	5,088	20,353	26,740	-	52,181
Other liabilities	6,907	6,225	13,132	196	-	635	13,963
Total liabilities	**22,983**	**10,041**	**33,024**	**36,241**	**76,020**	**635**	**145,920**
Commitments	-	16,195	16,195	242	-	-	16,437
Net liquidity gap	**12,241**	**51,786**	**64,027**	**(1,523)**	**(45,562)**	**208,626**	**225,568**
Cumulative net liquidity gap	**12,241**	**64,027**	**-**	**62,504**	**16,942**	**225,568**	**-**

4. RISK MANAGEMENT (CONITNUED)

4.3 Market risk

4.3.1 Introduction

Market risk is defined as the risk of losses in on-balance sheet and off-balance-sheet positions arising from movements in market prices. The risks subject to this requirement are:

- The risks pertaining to profit rate related instruments and equities in the trading book; and
- Foreign exchange risk and commodities risk throughout the Bank.

The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

4.3.2 Market Risk Factor

For the Bank, market risk may arise from movements in foreign exchange rates. A single transaction or financial product may be subject to foreign exchange risk.

4.3.3 Market Risk Strategy

The Board is responsible for approving and reviewing the market risk strategy. The Bank's senior management is responsible for implementing the market risk strategy approved by the Board, and continually enhancing the market policies and procedures for identifying, measuring, monitoring and controlling market risks.

In line with the Bank's Risk Management objectives and risk tolerance levels, the specific strategies for market risk management include:

- The Bank will proactively monitor and manage the market risk in its portfolio using a Board approved limit structure;
- The Bank will establish a market risk appetite which will be quantified in terms of a market risk limit structure for monitoring its market risk. This will be approved by the RC and the Board;
- The Bank will at all times hold sufficient capital in line with the Pillar I regulatory capital requirements of the CBB
- The Bank will carry out stress testing periodically to assess the effect of extreme movements in market variables which may expose the Bank to high risks;
- The Bank will clearly identify the foreign currencies in which it wishes to deal in. The Bank will manage its market risk in all foreign currencies in which it has significant exposure; and
- The Bank will manage its market risk exposure by evaluating each new product or activity with respect to the market risk introduced by it.

4.3.4 Market Risk Measurement Methodology

The Group is not exposed to significant market risk due to the nature of its activities and hence uses measurements involving a combination of limits to control market risk exposures. The Board approves the overall market risk appetite and delegates responsibility for providing oversight on the Bank's market risk exposures and the sub allocation of Board limits to the ALCO. Risk Management is responsible for the market risk control framework and for monitoring compliance with the limit framework. The Group separates market risk exposures into either trading or non-trading portfolios. Trading portfolios primarily include positions arising from proprietary position-taking of Sukuks . Non-trading portfolios include positions that arise from the foreign exchange and other marked-to-market positions in financial assets designated as fair value through other comprehensive income statement. Market risk reports covering Trading Book risk exposures are report daily to the bank's senior management. The measurement techniques used to measure and control market risk include exposure and stop loss limits and stress tests.

For calculating the market risk capital charge, the Group applies the Standardized Approach.

4.3.5 Market Risk Monitoring & Reporting and Limits Structure

The Bank uses a combination of limits to control its market risk exposures. Positions are monitored on a regular basis to ensure risk is maintained within established limits.

4. RISK MANAGEMENT (CONITNUED)

4.3 Market risk (Conitnued)

4.3.5 Market Risk Monitoring & Reporting and Limits Structure (Conitnued)

Table – 12. Market Risk Capital Requirements

The following table summarizes the capital requirement for each category of market risk as of:

	31 December 2016			
	Weighted risk exposures (USD '000)	Market risk capital requirement (USD '000)	Maximum value of RWE (USD '000)	Minimum value of RWE (USD '000)
Foreign exchange risk	25,219	3,152	**25,219**	**18,106**
Sukuk risk	14,244	1,781	14,244	-
Total risk weighted exposures	**39,463**	**4,933**		

As of 31 December 2016, the Group holds a portfolio of trading sukuks amounting to USD 14,244 thousand with a total gain of USD 727 thousand.

4.4 Operational risk

4.4.1 Introduction

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

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

The Board has the ultimate responsibility for operational risk. Oversight rests with the RC, ICRC and RMD. Risk and Control Self Assessment ("RCSA") is an annual exercise as per Bank's policy and is a requirement by CBB based on Basel II principles related to operational risk management.

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

4.4.2 Sources of Operational Risk

The different sources of operational risks faced by the Bank can be classified broadly into the following categories:

People Risk which arise due to staffing inadequacy, unattractive remuneration structure, lack of staff training, lack in procedures for appointment, unhealthy professional working relationship and unethical environment;

Processes Risk which arise due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate or inadequate monitoring and reporting; and

Systems (Technology) Risk which arise due to the Integrity of information, hardware failures due to power surge, obsolescence, low quality and software failure due to unauthorized or incorrect modifications to software programs, computer virus, programming bug.

4.4.3 Operational Risk Management Strategy

The Bank's Board is responsible for approving and reviewing (at least annually), the operational risk strategy and significant amendments to the operational risk policies. The Bank's senior management is responsible for implementing the operational risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank continuously monitors the process and controls framework surrounding all business units to assess their effectiveness and efficiency.

As a strategy the Bank will identify the sources of operational risks in coordination with each business unit.

4. RISK MANAGEMENT (CONITNUED)

4.4 Operational risk (Continued)

4.4.3 Operational Risk Management Strategy (Continued)

Management and Reporting of KRIs

The Bank plans to integrate the process of KRIs into the RCSA process and then start reporting KRIs to senior management.

Incident reporting

An incident is the occurrence of an operational risk event that has caused, or has the potential to cause a financial, reputation or regulatory impact on the Bank. It includes credit or market risk events, which have been caused by an operational risk event, and non-compliance with any legal or regulatory requirement, license, internal policy or procedure or code.

Operational Loss Database

The Operational Loss Database (OLD) is a key component to quantify past operational risk exposures. The OLD contains a subset of the information captured by the incident reporting process since all incidents involving an actual or potential financial impact (including near misses) is captured.

4.4.4 Operational Risk Monitoring and Reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to Senior Management and the RC for the quick detection and correction of deficiencies in the policies, processes and procedures for managing operational risk through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

4.4.5 Operational Risk Mitigation and Control

Control activities are necessary to address the specific operational risks that the Bank has identified through the RCSA process. For the material risks identified by the Bank, the Bank decides whether to use procedures to control, mitigate, transfer, or accept the risks.

The Bank has several options for controlling and/or mitigating these risks:

- Decline to accept the risk (i.e. by avoiding certain business strategies or customers)
- Accept and retain the risk but introduce mitigating internal or external controls
- Accept the risk and transfer it in part or in whole.

Key controls

The Bank aims to control the operational risks it is exposed to by strengthening its internal controls, continuing its efforts to identify, assess, measure and monitor its risks, evolving in its risk management sophistication and promoting a strong control culture within the Bank.

Each business unit head is responsible for ensuring that the internal controls relevant to its operations are complied with on a day to day basis in spirit as well as in letter. The Bank will furthermore establish control processes and procedures and implement a system for ensuring compliance with these internal risk control processes and procedures.

4.4.6 Disaster Recovery and Business Continuity Plan ("DR&BCP")

The Bank has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") based on risk review of the banks activities. The Bank ensures that business recovery & contingency plans are reviewed and updated periodically.

In particular, the DR&BCP will satisfy the following:

- it will cover incidents related to IT, communication and premises;
- testing will include critical business processes; and
- testing will cover critical types of plausible scenarios to which the Bank may be vulnerable.

4. RISK MANAGEMENT (CONITNUED)

4.5 Equity price risk

4.5.1 Equity price risk management

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2016, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus USD 339 thousand (2015: USD 820 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements.

An assessment is made at each year-end to determine whether there is any objective evidence that equity investments may be impaired. Any impairment for significant and prolonged decline in the value of investments is reflected as a write down of investments. Any subsequent increase in their fair value is recognized directly in equity. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

Table – 13. Equity Position Risk in the Banking Book (PD-1.3.31(b), (c) & (f))

The following table summarizes the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2016:

	Total gross exposure (USD '000)	* Average gross exposure over the period (USD '000)	Publicly Traded (USD '000)	Privately held (USD '000)	Capital requirement (USD '000)
Fair value through income statement	28,982	26,375	8,741	20,241	3,623
Fair value through equity	67,439	83,135	6,597	60,842	8,430
Investment in equity-accounted investees	4,742	6,384	-	4,742	593
	101,163	115,893	15,338	85,825	12,645

*Average balances are computed based on quarter-end balances.

Table – 14. Equity gains or losses in the Banking Book (PD-1.3.31(d) to (e))

The following table summarizes the cumulative realized losses during the year ended:

	31 December 2016 USD ('000)
Realized losses arising from sale of investment securities	(445)

4.6 Rate of return risk

4.6.1 Rate of return risk management

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities:

4. RISK MANAGEMENT (CONITNUED)

4.6 Rate of return risk (Conitnued)

4.6.1 Rate of return risk management (Conitnued)

Table – 15. Rate of Return Risk

2016	Up to 3 Months (USD '000)	3 months to 1 year (USD '000)	1 to 5 years (USD '000)	Above 5 Years (USD '000)	Total (USD '000)
Assets					
Placements with financial institutions	7,902	-	-	-	**7,902**
Financing receivable	-	-	6,915	-	**6,915**
Investment securities	-	4,897	12,057	30,942	**47,896**
Total profit rate sensitive assets	**7,902**	**4,897**	**18,972**	**30,942**	**62,713**
Liabilities					
Placements from financial institutions	6,503	-	-	-	**6,503**
Financing liabilities	8,301	-	15,692	49,280	**73,273**
Liabilities related to assets acquired for leasing	1,272	3,816	20,353	26,740	**52,181**
Total profit rate sensitive liabilities	**16,076**	**3,816**	**36,045**	**76,020**	**131,957**
Profit rate sensitivity gap	**(8,174)**	**1,081**	**(17,073)**	**(45,078)**	**(69,244)**

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by USD 1,127 thousand (2015:USD 2,064 thousand).

The rate of return risk is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers. The Group is not exposed to any significant rate of return risk and is aware of the factors that give rise to rate of return risk. Factors that possibly will affect rate of return may include an increase in long-term fixed rates in the market. The Bank is also aware of the fact that in general, profit rates earned on assets reflect the benchmark of the previous period and do not correspond immediately to changes in increased benchmark rates.

The Bank uses a combination of mismatch gap limits to measure and control its rate of return risk. Mismatched positions are regularly monitored to ensure that mismatch is maintained within established limits.

Displaced commercial risk ("DCR") refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Bank's DCR is limited as bank mainly depends on it equity to fund assets. In case DCR arises in some situation the Bank will forego its fee based on executive management decision and on case to case basis.

4.7 Liquidity risk

4.7.1 Introduction

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

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

Treasury department is overall responsible for ensuring that the limits enacted are adhered to, on a day-to-day basis and managing excess liquidity of the Group through short term placements and investments. Treasury maintains a constant communication with the banks. The Treasury provides a monthly report to the ALCO regarding the market conditions and the volatilities of the asset prices and as such the exogenous liquidity risk the Group is exposed to.

4. RISK MANAGEMENT (CONITNUED)

4.7 Liquidity risk (Conitnued)

4.7.2 Sources of Liquidity Risk

Broadly, sources of liquidity risk can be listed as:

Funding Risk – Inability to replace net outflows due to unanticipated withdrawal of capital or deposits;

Call Risk – Crystallization of a contingent liability; and

Event Risk – Rating downgrades or other negative news leading to a loss of market confidence in the Bank.

Liquidity risk may also arise if certain inter-bank funding lines are withdrawn or assets do not realize cash as expected and when anticipated.

4.7.3 Liquidity Risk Strategy

The Board is overall responsible for approving and reviewing (at least annually), the liquidity risk strategy and significant amendments to the liquidity risk policies. The Bank's senior management is responsible for implementing the liquidity risk strategy to identify, measure, monitor and control the risks faced by the Bank.

The Bank monitors the liquidity positions by comparing maturing assets and liabilities in different time buckets.

To mitigate the liquidity risk, the Group works with diversified funding sources, manages its assets with liquidity in mind and closely monitors periodic cash forecasts which take into account the Group's maturity profile.

4.7.4 Liquidity Risk Measurement Tools

The Bank has developed risk management policies and procedures including liquidity risk management framework. The Bank will use a combination of techniques for measurement of its liquidity risk. These would include Liquidity Gap Analysis and monitoring of liquidity ratios.

Table – 16. Liquidity ratios (PD-1.3.37)

The following table summarizes the liquidity ratios as of:

	31 December 2016
Liquid assets to total assets	19.38%
Short term assets to short term liabilities	342.92%

Formula is as follows:

Liquid Assets to total assets = (Cash and bank balances + due from financial institutions + Quoted sukuks-held for trading)/total assets

Short term assets to short term liabilities = Assets with up to one year maturity/liabilities with up to one year maturity

Table – 17. Quantitative indicators of financial performance and position (PD–1.3.9)

	December				
	2016	2015	2014	2013	2012
Return on average equity (ROAE)	-17.50%	-4.62%	-4.75%	0.01%	-5.14%
Return on average assets (ROAA)	-10.88%	-3.14%	-3.90%	0.01%	-4.55%
Total operating cost to Income ratio	64.38%	60.14%	96.08%	74.29%	76.73%

Formula is as follows:

ROAE = Net Income (Loss) /Average Equity

ROAA= Net profit (Loss) / Average Assets

Operating cost= Total expenses excluding fair value changes and impairment allowances.

4. 7.5 Bank's Financial Performance (PD-1.3.9 (a))

Ibdar reported total revenues of USD 19.3 million for the year, a decrease of 19% from USD 23.7 million in 2015. Profits before fair value changes and impairment allowances decreased to USD 6.9 million compared to USD 9.5 million in 2015. The net loss for the year was USD 47.7 million mainly driven by additional provision for impairment compared to USD 14.3 million in 2015. Impairment and fair value changes for 2016 amounted to USD 54.6 million compared to USD 23.8 million in 2015. The total asset base decreased by 21% reaching USD 387.9 million by year end. The decrease in the total asset base can be explained due to sale of assets acquired for leasing in addition to additional provisions taken on investment in securities.

5. LEGAL CONTINGENCIES

The following are the material* current or pending legal actions which involve potential liability to the Bank:

1. Ali Iskandar Ansari and Partners (AIAP) – Ibdar is a defendant to a claim in a suit in Qatar whereby the local promoter is claiming approximately $1 million due as fees relating to the establishment of a joint venture. Ibdar has vehemently argued that the claims are baseless as AIAP have not fulfilled the contractual obligations to earn the fees, and Ibdar has submitted a counterclaim for the loss of its investment. The Court of First Instance gave its ruling in January 2016 rejecting the claims of AIAP. AIAP however has appealed the judgment, The appealing court has also gave its ruling rejecting the claims of AIAP.

*materiality involves disputes involving potential liabilities in excess of $300,000, or 0.1% of the Bank's capital.

6. CORPORATE GOVERNANCE AND TRANSPARENCY

The Bank is committed to adopting the best international standards and global leading practices in corporate governance. The Bank has established a strong corporate governance framework that is designed to protect the interests of all stakeholders, ensure compliance with regulatory requirements, and enhance organisational efficiency.

The Bank has established a concrete organisational structure that clearly segregates functions and responsibilities, and reflects a division of roles and responsibilities of the Board of Directors and Management. Clear mandates exist for the Board, Chairman of the Board, Board Committees, Chief Executive Officer, the Management, and Senior Management Committees.

The Bank has only one class of equity shares and the shareholders are from the following nationalities (PD-1.3.10(i)):

Country	Percentage
1- State of Kuwait	50.52%
2- Kingdom of Bahrain	23.44%
3- Kingdom of Saudi Arabia	15.06%
4- Qatar	4.71%
5- United Arab Emirates	4.00%
6- Oman	2.03%
7- Jordan	0.13%
8- Yemen	0.05%
9- Philippines	0.02%
10- Sri Lanka	0.01%
11- Canada	0.01%
12- United Kingdom	0.01%
13- India	0.01%

The distribution of ownership of shares by size of shareholder is provided below (PD-1.3.10(l)):

Size of Ownership	No. of Shareholders
More than 10%	1
5 - 10 %	1
1 - 5 %	18
Less than 1 %	217
	237

6.1 Board Members' Profile

The primary responsibility of the Board is to provide effective governance over the Bank's affairs and promote and achieve sustainable performance that has long-term growth potential for the benefit of its shareholders. The Board also has the duty of balancing interest of all its stakeholders, including its clientele, business partners, correspondents, employees, suppliers and local communities, all the time maintaining standards of transparency and accountability.

In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the Bank's best interest. In discharging this obligation, they may rely on the professional integrity of the Bank's Senior Executives, as well as its external advisors and auditors. The Board of directors members are:

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

6.1 Board Members' Profile (Continued)

Table – 18. Corporate Governance and Transparency – Board Members' Profile (PD-1.3.10(b,c,p,q))

Ibdar's Board of Directors consists of 10 members as of December 31, 2016.

The following table summarizes the information about the profession, business title, experience in years, start date and the qualifications of the current Board members who were elected in the Annual General Meeting held on 28 April 2016;

Name of Board Member	Profession	Business Title	Executive / Non Executive Independent / Non Independent	Experience in years	Start date and term	Qualification
Tareq Sadeq	Financial Consultant	Managing Director - Keystone Consulting Inc WLL, Board member in Bahrain International Golf Course Company BSC, Board member of Al Zayani Investments BSC and Board member of Ahli United Bank - Kuwait	Independent	37	3 years from 28 April 2016	Chartered Accountant - The Institute of Chartered Accountants in England and Wales
Abdulkarim Bucheery	Banker	Board Member of Bahrain Credit Facilities Co. (BCFC) and Chairman of Bahrain Bourse	Independent	40	3 years from 28 April 2016	BSc - Economic Sciences from Aleppo University in Syria
Abdulaziz Al Afaleq	Mechanical Engineer	Partner, Board Member and Group CEO - Al-Kifah Holding Company	Independent	Over 15	3 years from 28 April 2016	EMBA - King Fahad University of Petroleum and Minerals. Bachelor degree in Mechanical Engineering.
Dr. Ahmed Al Balooshi	Certified Public Accountant	CEO - Smarteam Consultancy and Board member of Bahrain Telecommunication Company (Batelco)	Independent	Over 30	3 years from 28 April 2016	PhD in Accounting from the University of Surry, UK and is a Certified Public Accountant (CPA), USA, and holds an MBA in Finance and a BSc in Accounting from the University of Bahrain.
Ebrahim Al Jassmi	Banker	Board member of Bahrain Islamic Bank and Takaful International Company	Independent	over 35	3 years from 28 April 2016	B.S degree in Economics from the University of Kuwait and an MBA from the University of Bahrain.
Hamad Al-Sejari	Banker	Assistant Vice President of KFH Capital Investment Company	Executive	over 12	3 years from 28 April 2016	Bachelors in Civil Engineering with a minor in Business Administration from Old Dominion University, USA.
Jamal Abdulla Al Saleem	Banker	Board member of Kuwait Investment Company, Executive Vice President in Privatization Holding Company - Kuwait and Vice Chairman of Kingdom Electricity Company - Jordan	Non-Executive	Over 27	3 years from 28 April 2016	Bachelors degree in Accounting from University of Kuwait, and an MSc degree in Accounting achieved with highest honors from Oklahoma City University, USA. heastern University
Jasem Al-Yaseen	Banker	Executive Manager of the Treasury Sales Desk at Kuwait Finance House	Executive	Over 26	3 years from 28 April 2016	Bachelor's Degree in Industrial Engineering from the University of Miami, USA.
Khalid Al Maarafi	Banker	Executive Manager and Head of the Retail Banking Group at Kuwait Finance House-Bahrain, Chairman of Al Enma'a House for Real Estate and Board member of Family Bank and Baytik Industrial Investment Company	Executive	Over 33	3 years from 28 April 2016	Bachelor's in Accounting from the University of Bahrain, and is a Certified Public Accountant (CPA).
Mohamed Noorudin	Banker	Chairman of Newbury Investments W.L.L. - Bahrain, board member at Tadhamun Capital - Bahrain and a board member at Itqan Capital - Jeddah	Independent	Over 30	3 years from 28 April 2016	Bachelors in Business Adminsitration from University of Bahrain

The Board shall meet on a quarterly basis, or otherwise at least four times in every financial year. During the year ended 31 December 2016, 6 Board meetings were held. The following table summarizes the information about Board of Directors meeting dates and attendance of directors at each meeting;

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

6.1 Board Members' Profile (Continued)

Table – 19. Corporate Governance and Transparency – Board of Directors meetings in 2016 (PD-1.3.10(t and u))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone /video link	Names of Directors not Present
21-Feb-16	Paul Mercer (Chairman) Abdullah AlMarzouq Mishari Al Khalid Abdulhakim Aladhamy Saleh AlAfaleq Khalid AlBassam Khalid Najibi Khaled Al Aboodi	Zeyad AlMukhaizeem	NA
14-Apr-16	Paul Mercer (Chairman) Mishari Al Khalid Abdulhakim Aladhamy Saleh Al Afaleq Zeyad AlMukhaizeem Khalid Najibi	Khalid Al Bassam Abdullah AlMarzouq	Khaled Al Aboodi
11-May-16	Tareq Sadeq (Chairman) Abdulkarim Bucheery (Vice Chairman) Abdulaziz Al Afaleq Hamad Al Sejari Mohamed Nooruddin Jassem Al Yaseen Khalid Al Maarafi Ebrahim Al Jassmi Ahmed Al-Balooshi Jamal Al Saleem	NA	NA
17-May-16	Tareq Sadeq (Chairman) Abdulkarim Bucheery (Vice Chairman) Khalid Al Maarafi Ebrahim Al Jassmi	Hamad Al Sejari Jassem Al Yaseen	Mohamed Nooruddin Abdulaziz Al Afaleq Ahmed Al-Balooshi Jamal Al Saleem
16-Sep-26	Tareq Sadeq (Chairman) Abdulkarim Bucheery (Vice Chairman) Hamad Al Sejari Mohamed Nooruddin Jassem Al Yaseen Khalid Al Maarafi Ebrahim Al Jassmi Ahmed Al-Balooshi Jamal Al Saleem	Abdulaziz Al Afaleq	NA
16-Dec-6	Tareq Sadeq (Chairman) Abdulkarim Bucheery (Vice Chairman) Abdulaziz Al Afaleq Hamad Al Sejari Mohamed Nooruddin Jassem Al Yaseen Khalid Al Maarafi Ebrahim Al Jassmi Ahmed Al-Balooshi Jamal Al Saleem	NA	NA

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

6.2 Changes in Board Structure

A new Board was elected on April 28, 2016 during the Annual General Meeting for a three (3) year term.
The following table presents the directorships held by the directors in other boards:

Table – 20. Information on the directorships held by the directors on other boards

Name of Board Member	Directorship in other companies - based outside Bahrain	Directorship in other companies - based in Bahrain
Tareq Sadeq	Ahli United Bank, Kuwait	Bahrain Credit Facilities Co. (BCFC)
Abdulkarim Bucheery	-	Bahrain Bourse
Abdulaziz Al Afaleq	Al-Kifah Holding Company Saudi Arabia	-
Dr. Al Ahmed Al Balooshi	-	Bahrain Telecommunications Company (Batelco)
Ebrahim Al Jassmi	-	Bahrain Islamic Bank Takaful International company
Hamad Al-Sejari	-	-
Jamal Al Saleem	Kuwait Investment Company, Kuwait Kingdom Electricity Company, Jordan Privatization Holding Company, Kuwait	-
Jasem Al-Yaseen	-	-
Khalid Al Maarafi	-	Al Enma House for Real Estate Family Bank Baytik Industrial Investment Company
Mohamed Nooruddin	Itqan Capital - Saudi Arabia	Newbury Investments Tadhamon Capital

6.2.2 Auditors' appointment

During the year, the shareholders at the AGM appointed KPMG Fakhro as the external auditors of the bank.

6.3 Board Committees

The following tables summarise the information about Board Committee meeting dates and attendance of directors at each meeting;

Table – 21. Corporate Governance and Transparency – Audit Committee meetings in 2016 (PD-1.3.10(w))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
Audit Committee 14-Feb-16	Abdul Hakim Al-Adhamy (Chairman) Khalid Al-Bassam Mishari al Khalid	NA	NA
Audit, Risk and Compliance Committee 29-May-16	Dr. Ahmed Al Balooshi (Chairman)	NA	NA
	Khalid Al Maarafi		
	Abdulaziz Al Falaq		
Audit, Risk and Compliance Committee 04-Aug-16	Dr. Ahmed Al Balooshi (Chairman)	NA	NA
	Khalid Al Maarafi		
	Abdulaziz Al Falaq		
Audit, Risk and Compliance Committee 03-Nov-16	Dr. Ahmed Al Balooshi (Chairman)	NA	NA
	Khalid Al Maarafi		
	Abdulaziz Al Falaq		

In 2016 the Audit Committee and Risk Committee merged to form the Audit, Risk & Compliance Committee

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

Table – 22. Corporate Governance and Transparency – Executive Committee meetings in 2016 (PD-1.3.10(w))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
10-Apr-16	Khalid Najibi (Chairman) Abdullah AlMarzouq Saleh AlAfaleq Zeyad AlMukhaizeem	NA	NA
1-Jun-16	Abdulkarim Bucheery (Chairman) Ebrahim Al Jassmi Hamad Al-Sejari Jassem Al Yaseen	NA	NA
14-Jun-16	Abdulkarim Bucheery (Chairman) Ebrahim Al Jassmi Hamad Al-Sejari Mr. Jassem Al Yaseen	NA	NA
28-Aug-16	Abdulkarim Bucheery (Chairman) Hamad Al-Sejari	Ebrahim Al Jassmi Jassem Al Yaseen	NA
27-Nov-16	Abdulkarim Bucheery (Chairman) Hamad Al-Sejari Jassem Al Yaseen	Ebrahim Al Jassmi	NA
5-Dec-16	Abdulkarim Bucheery (Chairman) Ebrahim Al Jassmi Hamad Al-Sejari Jassem Al Yaseen	NA	NA

Table – 23. Corporate Governance and Transparency – Risk Committee meetings in 2016 (PD-1.3.10(w))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
4-Feb-16	Khalod Al Bassam (Chairman) Paul Mercer Abdulhakim Aladhamy	NA	NA

In 2016 the Risk Committee merged to form the Audit, Risk & Compliance Committee

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

Table – 24. Corporate Governance and Transparency – Nomination, Remuneration and Governance Committee meetings in 2016 (PD-1.3.10(w))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
16-Feb-16	Khalid AlAboodi (Chairman) Mishari AlKhalid Khalid Najibi	NA	NA
13-Mar-16	Khalid AlAboodi (Chairman) Mishari AlKhalid Khalid Najibi	NA	NA
14-Apr-16	Khalid Najibi Mishari AlKhalid	NA	Khalid AlAboodi
30-May-16	Tareq Sadeq (Chairman) Mohamed Nooruddin Jamal Al Saleem	NA	NA
29-Jun-16	Tareq Sadeq (Chairman) Mohamed Nooruddin Jamal Al Saleem	NA	NA
25-Oct-16	Tareq Sadeq (Chairman) Mohammed Nooruddin Jamal Al Saleem	NA	NA
4-Dec-16	Tareq Sadeq (Chairman) Mohammed Nooruddin Jamal Al Saleem	NA	NA
27-Dec-16	Tareq Sadeq (Chairman) Mohamed Nooruddin	Jamal Al Saleem	NA

6.4 Changes in the Corporate Governance Structures (PD-1.3.10(g))

No changes to the Corporate Governance Structures occurred in 2016.

6.5 Remuneration Policy and Aggregate Remuneration Paid to Senior Management and Board (PD-1.3.10(d, ii, jj and kk))

The Bank's remuneration policy for Senior Management is to provide competitive remuneration structure to attract and retain highly skilled personnel.

Aggregate remuneration paid to senior management during 2016 was USD 1,557 thousand (2015 USD 1,073 thousand) (this includes salaries, allowances, other benefit and bonuses paid for the year ended 31 December 2016.

The Bank's remuneration policy for Board Members is to appropriately compensate and remunerate board members for their active participation in board meetings. Based on this policy the Board of Directors remuneration was structured to comprise the following:

(a) Annual Contractual Remuneration

(b) Attendance fees for members attending Board and sub-committee meetings

(c) Daily Allowance

(d) First class air tickets

Remuneration of USD of 500 thousand was accrued for 2016. Payment is subject to approval of Minister of Commerce and shareholders in the AGM.

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

6.6 A. Ownership of Shares by government (PD-1.3.10(m))

Name of Government Authority	Country	No. of Shares	Percentage %
Social Insurance Organization	Kingdom of Bahrain	4,693,951	1.565%
The Public Authority for Minor Affairs	State of Kuwait	1,642,877	0.548%
Awqaf Public Foundation	State of Kuwait	1,642,877	0.548%
Directorate of Minors Affairs	Kingdom of Bahrain	259,880	0.087%

B. Directors' and Senior Managers' trading of the bank's shares during the year (PD–6.1.1 (c))

Directors and Senior Managers have not made any trade of the bank's shares during the year.

6.7 Ownership of Shares by Directors / Senior Managers (PD-1.3.10(k))

The current Board or Senior Management do not have any shares in the Bank.

6.8 Type of Material Transactions that require Board approval (PD-1.3.10(o))

The following types of material transactions require Board approval if suggested by the approved policies:

(a) Conclude loan agreements with certain limit;
(b) Sell the company's assets;
(c) Mortgage the Company's properties;
(d) Grant guarantees to third parties;
(e) Discharge the Company's debts; and
(f) Engage in any other acts which may be integral to the company's objects as set out in the Memorandum of Association.

6.9 Induction, Education and Orientation of New Directors (PD-1.3.10(r))

All new Directors participate in an orientation exercise that is administered by the Directors and members of the Management at Ibdar. This orientation includes presentations by the Chairman and senior management to familiarize new Directors with Ibdar's strategic plans, significant financial, accounting and risk management issues, compliance programs, the Code of Conduct, its principal officers, and internal and independent auditors.

In addition, the orientation includes visits to Ibdar headquarters and, to the extent practical, Ibdar's significant investments. It is emphasized that Directors stay up-to date in relation to matters relevant to the Bank, the industry and the particular areas of expertise for which they have been invited on to the BOD in the first place. In particular the induction/orientation process will aim for a Director to have:

(a) An appropriate level of knowledge of the industry Ibdar operates in.
(b) A clear understanding of Ibdar's business operations.
(c) A clear understanding of Ibdar's financial circumstances.
(d) A clear understanding of Ibdar's strategy and direction.
(e) A high level knowledge of the business risks that may affect its success.
(f) Access to relevant background information on key employees and the other members of the BOD.
(g) In addition, new Directors are provided an Induction Package

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

The process of director induction is critical to having the new directors effectively and efficiently contributing to the Board of Directors. As part of this process, specifically, the new director shall:

(a) Be welcomed formally by the Chairman of the Board, who shall brief him generally on the Bank, the Board, the other directors, and the culture and operation of the Board.

(b) Meet with the Chief Executive Officer onsite at the Bank office to discuss the Bank strategy and plan and be introduced to key management staff.

(c) Be briefed on the history and legacy of the Bank and its key shareholders, clients, and partners by the Chief Executive Officer or other member of Senior Management.

(d) Be briefed by the Board Secretary on the general operations of the Board.

(e) Be provided all of the pertinent documentation, including but not limited to:

- i. Applicable laws and regulations, including the Commercial Companies Law, the CBB Rulebook and regulations
- ii. The Memorandum and Articles of Association
- iii. The Corporate Governance Manual
- iv. Organization Chart
- v. Business Plan
- vi. Schedule for Upcoming Board and Committee Meetings
- vii. The Board Minutes for the last 12 months (including the audio recording of the last meeting, if available)
- viii. The Board Packs for the last 12 months
- ix. The Board Committee Minutes for the respective committee he will be appointed to for the last 12 months (including the audio recording of the last meeting, if available)
- x The Annual Reports for the last 2 years
- xi. The Quarterly Financials for the last 12 months

(f) Be provided any other documentation on the Bank, its products, services, market or competition, upon his request.

(g) Be afforded the opportunity to meet with any staff, consultants, or advisors, including the external auditor, upon his request.

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

6.10 Executive Members' Profile

Delegated by the Board with the authority for managing the Bank's operations, the Executive Management Team of the Bank are responsible for implementing decisions, policies, procedures, and strategies approved by the Board of Directors.

Table – 25. Corporate Governance and Transparency – Executive Members' Profile (PD-1.3.10(b))

The following table summarises the information about the profession, business title, experience in years and the qualifications of each Executive member;

Name of Executive Member	Department	Business Title	Experience in year	Qualification
Mr. Ahmed Al-Rayes	Acting Chief Executive Officer / Chief Investment Officer	A/CEO / CIO	Over 16	BSc in Mechanical Engineering from the University of Bahrain and an MBA from University of Strathclyde in Glasgow, Scotland.
Mr. Janaka Mendis	Chief Financial Officer	CFO	Over 21	MBA from TRIUM, jointly offered by NYU Stern business school, LSE and HEC Paris. He is also a fellow of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka.
Mr. Mohammed Kettani	Private Equity	Executive Director	Over 18	Master of Science in Finance from George Washington University, USA
Mr. Ahmed Al Mohaisen	Investor Relations	Executive Director	Over 11	Finance and Economics from King Fahad University of Petroleum & Minerals
Ms. Aysha Aljalahma	Compliance	Director	Over 12	Bachelors of Science in Accounting from the University of Bahrain and a Master of Science in International Finance from the University of Westminster, UK.
Mr. Farrukh Zareef	Risk Management	Director	Over 18	Associate Member of Institute of Chartered Accountant of Pakistan (ICAP)
Mr. Khalid Javaid	Legal & Corporate Secretary	Executive Director	Over 19	Diploma in UK Legal Practice, a BSc (Hons) in Quantitative Economics from the City of London University, and a Postgraduate Diploma in Law from the University of Thames Valley.
Mr. Abdulla Nima Najem	Shariah	Director	Over 25	Bachelor Degree in Chemical Engineering, – University of Bahrain, Advanced Diploma in Islamic Baking – BIBF, Advanced Diploma in Islamic Commercial Jurisprudence, Jordan & BIBF, High Diploma in Education – University of Bahrain, and High Diploma in Distance Teaching & Training– Arabian Gulf University, Bahrain. He is also Certified Islamic Professional Accountant (CIPA) – AAOIFI, Certified Shari'ah Advisor and Auditor (CSAA)-AAOIFI, Shari'ah Reviewer (CBB Waqf Program), and Certified Anti-Money Laundering & Compliance Officer , FINRA , ICMA & University of Reading. Prior to joining Ibdar, Abdullah served at Gulf Finance House and the University of Bahrain

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

6.10 Executive Members' Profile (Continued)

Table – 25. Corporate Governance and Transparency – Executive Members' Profile (PD-1.3.10(b)) (Continued)

Name of Executive Member	Department	Business Title	Experience in year	Qualification
Dr. Yousif Janahi	Information Technology & Administration	Director	Over 28	Master degree in Computer Based Information Systems from University of Sunderland – UK
Mr. Hasan Juma	Asset Management	Director	Over 12	BCs in Accounting from the University of Bahrain and is a Certified Public Accountant (CPA) from the American Institute of Certified Public Accountants (AICPA), New Hampshire, USA and a Certified Islamic Professional Accountant (CIPA) from AAOIFI.
Mr. Arshan Merchant	Investment Administration	Director	Over 18	Executive Master in Business Administration and he is a Certified Public Accountant
Mr. Bassam Kameshki	Real Estate	Director	Over 13	BSc degree in Civil Engineering from University of Bahrain, Certified Development Manager from George Washington University and MBA with Merit from University of Strathclyde, Scotland.
Mr. Nader AlQassab	Post Acquisition	Director	Over 16	Master of Business Administration from University of Strathclyde, Glasgow – Scotland. He is also a Chartered Fund and Asset Manager
Ms. Sama Al Alawi	Human Resources	Director	Over 25	Master of Science in Human Resources. Chartered Institute of Personnel and Development (level 5). Six Sigma Certificate and Six Sigma Black Belt holder
Mr. Bassam Sami Awdi	Internal Audit	Director	Over 18	Executive Master in Business Administration and he is a Certified Public Accountant
Ms. Nada Kazerooni	Treasury & Capital Markets	Director	Over 15	MBA from Strathclyde University, Scotland, and a BSc in Civil Engineering from Northeastern University, Boston-USA.
Ms. Victoria McFarlane	Corporate Communications	Director	Over 20	Masters Degree in Leadership and Change Management from the York St. John University, UK.
Ms. Najla Abdulaziz*	Corporate Communications	Manager	Over 19	LCCIEB Diploma – London Chamber of Commerce and Industry Examination Board – Marketing and Public Relation. Associate Diploma – University of Bahrain – Chemical Engineering
Mr. Ahmed Ali Albahdahi**	Operations & Administration	Director	Over 39	Master in Business Administration - AMA International University Of Bahrain - Specialization in Finance.
Mr. Hasan Juma	Director Asset Management	Director	Over 12	Hasan Juma is an experienced banker with more than 12 years in the financial sector. Prior to joining Ibdar Hasan was Vice President in the Alternatives investments covering Private Equity at NCB Capital. He managed a total AUM of USD 1 billion in Private Equity and is an investment committee member in a number of regional funds, Advisory committee and Audit committee member. Hasan holds a BCs in Accounting from the University of Bahrain and is a Certified Public Accountant (CPA) from the American Institute of Certified Public Accountants (AICPA), New Hampshire, USA and a Certified Islamic Professional Accountant (CIPA) from AAOIFI.

*Ms. Najla Abdulaziz resigned from the bank effective [29 February 2016]

**Mr. Ahmed Ali Albahdahi resigned from the bank effective [29 February 2016]

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

6.11 Bank's Performance Linked Incentive Structure (PD-1.3.10(d))

The remuneration & incentive structure of the Board Members and Shari'a Members is discussed at the Board level. Remuneration of Board Members is approved in the Annual General Meeting ("AGM"). Bonuses are based on Bank's performance, division or department performance and individual staff performance. The board approves all performance bonus schemes for staff.

6.12 Related Party Transactions (PD-1.3.10(f))

Related party transactions are governed by the Group corporate governance policy. All related party transactions were concluded at arm's length.

Where the Bank proposes to enter into a related party transaction the following procedures apply:

1. The relevant responsible officer involved in the transaction makes appropriate disclosure to the Compliance Officer of the bank. The Compliance Officer will review the transaction and send his/her comments to the Investment, Credit & Risk Committee about the proposed transaction. This disclosure should include the following:
   (a) Details of the proposed transaction;
   (b) Proposed transaction parties and how they are related;
   (c) How arm's length may be evidenced
2. The committee will consider the information provided in order to determine whether and how to proceed with the proposed transaction. The committee may confer with risk management and legal department or may take external legal advice, in reaching this determination.
3. The Committee shall review the material facts of the transactions that require the Committee's approval and either approve or disapprove of the entry into the related party transaction.

For related party transaction and balances, please refer note 23 of the financial statements. No conflicts were identified and reported during the year.

6.13 Assessment of Board of Directors Effectiveness & Contribution (PD-1.3.10(aa))

The Board and the management of the Bank are committed to the highest standards of corporate governance and risk management, therefore the Bank has developed a methodology which incorporates a process to self-assess the performance of the Board by the Board members on ongoing basis. This methodology and performance criteria is developed and recommended in line with the Board approved corporate governance policy and terms of reference. Self assessment shall help the board to establish clear expectations and goals to measure against these standards. The areas covered by the self assessment process are:

- Objective and strategy
- Selecting and retaining competent management
- Monitoring and assessing operations
- Efficient operations
- General assessment

The Board assessment for 2015 were presented and approved in the Board meeting dated May 11, 2016. The Bank is in the process of Board assessment for 2016.

6.14 Review of internal control processes and procedures (PD-1.3.10(y))

Internal control processes and procedures are regularly reviewed by the Bank's Internal Auditor in line with the internal audit plan approved by the Board's Audit Committee.

6.15 Governance arrangements, systems and controls employed by the bank to ensure Shari'a compliance (PD-1.3.10(ff))

Shari'a compliance department conducts review of all business financing and investment proposals together with audit of all executed transactions of Ibdar Bank and its affiliates to confirm compliance with Shari'a rules and principles, and also with specific rulings and guidelines issued by the Shari'a Supervisory Board.

The Shari'a review and audit are conducted internally by the Shari'a Compliance Department, which includes examining all transactions without exception, with all its the relevant documentation and execution procedures adopted by Ibdar Bank.

The Shari'a review and audit are planned and performed after obtaining all the information and explanations which are considered necessary to provide sufficient evidence and give reasonable assurance that Ibdar Bank and its affiliates are in compliance with Islamic Shari'a rules and principles.

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

The findings are reported to the Shari'a Supervisory Board during the periodic meeting, which is held on quarterly basis or at any other time as the case may require. The Shari'a Supervisory Board reviews the review and audit reports of the Shari'a Compliance Department and provides the necessary recommendations in this regard, if needed, and issues the official opinion by means of the Shari'a Compliance Certificate after each meeting.

6.16 Handling of Non Shari'a compliance earnings and expenditures (PD-1.3.10(gg))

Any amount that has been identified as being non Shari'a compliant are fully reimbursed to a charity organization or a Bahraini Non-Profit organization. Income from non islamic sources amounting to USD 14 thousand was given as charity.

6.17 Information on mediation, advise and complaint procedures at the bank (PD-1.3.10(dd))

The investors may use the Bank's website for logging a query or a complaint, which is managed by the Corporate Communications Department ("CCD") through the info@ibdarbank.com or complaint@ibdarbank.com in the "Contact Us" page on the website.

After receiving a query or a complaint through the email address associated with the "Contact Us" page, CCD/Compliance channel the query or the complaint to the concerned department to follow up with a response. The investor's query is addressed accordingly by the appropriate department or person who was asked to handle the issue. An acknowledgement goes to the customer within 5 working days and a full reply within a maximum of 4 weeks.

6.18 Election system of directors and any termination arrangements (PD-1.3.10(s))

As per the Memorandum and Articles of Association of the Bank, the Board shall be elected by the shareholders for a period of three years. The Board shall meet and elect its Chairman and Vice Chairman for a period equivalent to the term of the Board. The termination arrangements of the Board of Directors are as stated in the Memorandum of Articles of Association (Articles 24, 25 & 27).

Article 25-Appointment of Expert Directors: Subject to the approval of the Central Bank of Bahrain, the Ordinary General Meeting may appoint a number of persons with expertise to be members of the Board of Directors who are not founders or shareholders in the Company in such number and with powers as the Board of Directors may deem necessary in order to serve the interest of the Company and provide the necessary technical, administrative and scientific skills and practical experience for the Company and provide the necessary technical, administrative and scientific skills and practical experience for the Company and subject to satisfaction by such members of the requirements of Ministerial Order No.10 for the year 2002 with respect to qualifying conditions required to be met by members of the Board of Directors who are not founders or shareholders, and subject also to the number determined for members of the Board of Directors according to provisions of these Articles of Association.

Article 26-Termination of Membership of Directors: A director's membership of the Board of Directors terminates in the following events:

1. If he was appointed or elected contrary to the provisions of Law of Articles of Association.
2. If he mis-uses his position as director in carrying on business that is competitive to that of the Company or if he causes actual damage to it.
3. If he fails to attend three consecutive meetings of the Board without lawful excuse notified in writing to the Board, and the Board shall resolve on this matter as it may deem fit.
4. If he resigns or withdraws from his office, provided the foregoing shall be done in an opportune time, otherwise he shall be liable to pay damages to the Company.
5. If he occupies any other office in the Company for which he would receive remuneration other than that which the Board of Directors may decide form time to time to remunerate its occupier because of the executive nature of his duties.

Article 27-Removal of Directors:

1. The General Meeting may terminate the membership of all or some of the members of the board Of Directors. Requisition for termination shall be presented to the Board by shareholders representing at least 10% of the capital. The Board shall forward such requisition to the General Meeting within a maximum period of one month from the date of its submission; otherwise the Ministry of Industry and Commerce may issue the notice for the Meeting. The General Meeting may not consider this requisition with respect to the said termination unless the said requisition is on the agenda. Save when serious developments are revealed during the meeting requiring such termination
2. A member of the Board of Directors may resign provided that such resignation is at a suitable time, or else, he may be liable to pay compensation to the Company.

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

6.19 Bank's Communication Strategy (PD-1.3.10(h and cc))

The CCD is responsible for preparing marketing materials in liaison with other Business Departments, which are used to communicate new product information and inform the investors of the Bank's activities. The various channels of communication may include corporate publications, website, direct mailers, electronic mail and local & regional media (through press releases). All marketing materials & corporate documents are approved by Senior Management prior to disclosing to the public.

The Bank adopted an open policy for communication where it uses all available suitable channels to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of the media for the purposes of providing information on the Bank's progress.

The bank provides investment updates to its client on a semi-annual basis.

Furthermore, the Bank provides information on all events that merit announcement, either on its website or through other communication channels. The Bank's annual report and previous years financial statements are also published on the website, as well as the Corporate Governance reports. The Bank's quarterly results are also published in both Arabic and English newspapers, and are posted on the Bank's website.

The Board attaches a high degree of importance to continuous communication with shareholders, especially direct dialogue with them at the Bank's annual general meetings. Shareholders are therefore encouraged to actively participate at such meetings.

6.20 Bank's Code of Ethical Business Conduct and Conflict of Interest (PD-1.3.10(v) & PD–6.1.1 (j))

The Board establishes corporate values for itself, senior management, and employees. These values have been communicated throughout the Bank, so that the Board and senior management and staff understand their accountabilities to the various stakeholders and fulfill their fiduciary responsibilities to them.

Bank's ethics dictate that a Board Member should:

1. Not enter competition with the Bank;
2. Not demand or accept substantial gifts for himself or his associates;
3. Not take advantage of business opportunities to which the Bank is entitled for himself or his associates;
4. Report to the Board any conflict of interest in their activities with, and commitments to other organizations. In any case, all Board Members declare in writing all of their other interest in other enterprises or activities (whether as a shareholder, manager, or other form of participation) to the Board (or the Audit, risk and compliance Committee / Corporate Officer) on an annual basis;
5. Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advise, or which involves a subject or proposed transaction where a conflict of interest exists; and
6. Ensure, collectively with the Board, that systems are in place to ensure that necessary client confidentiality is maintained and the privacy or the organization itself is not violated, and that clients' rights and assets are properly safeguarded.

During 2016, there has not been any cases of conflict of interest in the Bank.

6.21 Monitoring Compliance to and Enforcement of Code of Conduct

The matters covered in the Code of Conduct are of the utmost importance to the Bank, its stakeholders and its business partners and are essential to the Bank's ability to conduct its business in accordance with its stated values. The Bank clearly communicates to all of its employees that they are expected to adhere to these rules in carrying out their duties for the Bank.

The Board, through independent evaluators (i.e. Internal Auditor) and Senior Management, continuously monitor adherence to the set Code of Conduct and take appropriate action against any employee whose actions are found to violate these policies or any other policies of the Bank. Disciplinary actions may include immediate termination of employment or business relationship at the Bank's sole discretion. Employees are prohibited from participating in or concealing criminal activity or illegal behavior. Periodic reports and assessments of compliance to Code of Conduct will be presented to the board to report any incident of non compliance.

6.22 Auditor's Fees and Non-Audit Services

The details of the audit fees charged and non-audit services provided by the Bank's external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank's shareholders as per their specific request, provided that these disclosures do not negatively impact the Bank's interest.

6. CORPORATE GOVERNANCE AND TRANSPARENCY (CONTINUED)

6.23 Social Functions and Charitable contributions of the Bank

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

6.24 Penalties or Fines by Central Bank of Bahrain

The bank did not pay any penalties to the Central Bank of Bahrain in 2016.

6.25 Penalties charged to Customers for Default

No penalties were charged to customers with regards to defaults during 2016.

7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION

The Bank's total compensation approach, which includes the variable remuneration policy, sets out the Banks's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

The Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework in 2014. The revised policy framework and incentive components was approved by the shareholders in the Annual General Meeting.

The key features of the proposed remuneration framework are summarised below.

7.1 Remuneration Strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. The Bank's reward package is comprised of the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus
4. Long Term Incentives

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination & Remuneration Committee (NRGC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and/ or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who has a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the NRGC believes the latter contributes to the long-term sustainability of the business.

7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

7.2 NRGC Role and Focus

The NRGC has oversight of all reward policies for the Bank's employees. The NRGC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRGC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

The responsibilities of the NRGC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRGC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial control and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Table – 26. NRGC Membership

NRGC Member Name	Appointment date	Number of meetings attended
Tareq Sadeq	28-Apr-16	8 meetings attended in 2016
Mohamed Nooruddin	28-Apr-16	8 meetings attended in 2016
Jamal al Saleem	28-Apr-16	8 meetings attended in 2016
Khalid Najibi	30-Jan-14	2 meetings attended in 2016
Khalid Al Aboodi	28-Jan-13	2 meetings attended in 2016
Meshari Zaid Al Khalid	28-Jan-13	3 meetings attended in 2016

The aggregate remuneration paid to NRGC members during the year in the form of sitting fees amounted to USD 74,400 [2015: USD 43,200].

7.3 External Consultants

Consultants were appointed during the year to advise the Bank on administration of variable remuneration policy .

7.4 Scope of Application of the Remuneration Policy

The variable remuneration policy has been adopted on a bank-wide basis.

7.5 Board Remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 5% of the Bank's net profit after all required deductions as outlined in Article 188 of the Companies law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

7.6 Variable Remuneration for Staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award and long term incentives for future performance. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRGC aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRGC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRGC.

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

7.7 Remuneration of Control Functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

7.8 Variable Compensation for Business Units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

7.9 Risk Assessment Framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The Bank's NRGC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

7.9 Risk Assessment Framework (Continued)

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and it's ICAAP.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:

(a) The cost and quantity of capital required to support the risks taken;

(b) The cost and quantity of the liquidity risk assumed in the conduct of business; and

(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRGC keeps itself abreast of the Bank's performance against the risk management framework. The NRGC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

7.10 Risk Adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration.
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower
- Reduction in the value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRGC, with the Board's approval, can rationalize and make the following discretionary decisions:

- Increase/ reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of non-cash awards
- Recovery through malus and clawback arrangements

7.11 Malus and Claw Back Framework

The Bank's malus and clawback provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

7.12 Components of Variable remuneration

Table - 27. Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years
Other Non-Cash Awards	Non-Cash Awards that link rewards to the risk and profitability of individual transactions or transaction portfolios including: - Profit Share in Investments - Carried Interest - Co-Investment in Assets

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

7.13 Deferred Compensation

All staff earning in excess of BHD 100,000 are subject to the following rules of deferral:

The CEO and 5 most highly paid business line employees are subject to the following deferral rules:

Table - 28. Deferral Rules - Business Line Employees

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Clawback*
Upfront cash	40%	immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred Phantom Shares	10-50%	3 years	6 months	Yes	Yes
Other Non-Cash Awards	0-40%	Transaction linked	6 months	Yes	Yes

All other covered staff are subject to the following deferral rules:

Table - 29. Deferral Rules - Other Covered Staff

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Clawback*
Upfront cash	50%	immediate	-	-	Yes
Upfront non-cash awards	10%	immediate	6 months	Yes	Yes
Deferred non-cash awards	40%	3 years	6 months	Yes	Yes

The NRGC, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

7.14 Details of Remuneration Paid

Table - 30. Board of Directors

	2016	2015
Sitting Fees	115,199	103,200
Remuneration	550,000	-
Others	59,836	59,299

7. DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION (CONTINUED)

7.14 Details of Remuneration Paid (Continued)

Table - 31. Employee Remuneration

	2016					
		Variable Remuneration		Fixed Remuneration		
	Number of Staff	Cash USD 000's	Others USD 000's	Cash USD 000's	Others USD 000's	Total USD 000's
Approved Persons-						
- Business Lines	4	142	158	836	108	1,244
- Control and Support	13	284	65	1,582	249	2,180
Other Material Risk Takers	10	298	29	1,338	209	1,874
Other staff	26	146	-	822	154	1,122
Total	53	870	252	4,578	720	6,420

	2015					
		Variable Remuneration		Fixed Remuneration		
	Number of Staff	Cash USD 000's	Others USD 000's	Cash USD 000's	Others USD 000's	Total USD 000's
Approved Persons						
- Business Lines	4	100	150.00	874	23	1,147
- Control and Support	13	234	59.00	1,064	181	1,538
Other Material Risk Takers	9	136	104	801	100	1,141
Other staff	22	185	-	2,428	513	3,126
Total	48	655	313	5,167	817	6,952

Table - 32. Severance Pay

	2016	2015
Number of Staff	6	5
Severance Pay (USD)	234,033	605,821
Highest such award to a single person (USD)	85,659	279,065

Table - 33. Deferred awards

	2016			
	Cash	Shares Nos	Value	Total
Opening balance	42,119	574,663	210,584	252,703
Awarded during the period	41,870	696,231	209,353	251,223
Profit accrued during the period on deferred cash	614	-	-	614
Paid out / released during the period	(14,244)	-	-	(14,244)
Valuation adjustments	-	-	(37,785)	(37,785)
Closing balance	**70,360**	**1,270,894**	**382,152**	**452,512**

	2015			
	Cash	Shares Nos	Value	Total
Opening balance	-	-	-	-
Awarded during the period	42,119	574,663	210,584	252,703
Profit accrued during the period on deferred cash	-	-	-	-
Paid out / released during the period	-	-	-	-
Valuation adjustments	-	-	-	-
Closing balance	42,119	574,663	210,584	252,703

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