GFH Financial Group BSC

CONSOLIDATED
FINANCIAL STATEMENTS

31 DECEMBER 2016

Commercial registration	:	44136 (registered with Central Bank of Bahrain as a Islamic wholesale investment Bank)
Registered Office	:	Bahrain Financial Harbour Office 2901, 29th Floor, Building 1398, East Tower, Block 346, Road 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Ahmed Al Mutawa, Chairman Mosabah Saif Al Mautairy, Vice Chairman Bashar Muhammad Almutawa Mohammed Ali Talib Sheikh Mohammed Bin Duaij Al Khalifa Khalid Alkhazraji Faisal Abdulla Fouad Yousef Ibrahim AlGhanim Jassim AlSeddiqi (w.e.f 17 April 2016) Hisham Alrayes (w.e.f. 17 April 2016)
Chief Executive Offcer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

CONTENTS

IN THE NAME OF ALLAH, THE BENEFICIENT, THE MERCIFUL, PRAYERS AND PEACE BE UPON THE LAST APOSTLE AND MESSENGER, OUR PROPHET MOHAMMED.

Dear Shareholders,

On behalf of the Board of Directors of GFH, I am pleased to present the Group's financial results for the fiscal year ended 31st December 2016. Realizing the benefits of our transformation, the year was once again marked by greater levels of diversification and value creation as well as enhanced financial stability and profitability.

We are especially proud of our sustained progress in light of a challenging macroeconomic environment, which continues to impact both the MENA region as well as the global markets in which we are active. We attribute our ability to continue to effectively invest, grow and prosper to a strong and disciplined strategy aimed at achieving steady results whatever market conditions or challenges may arise. At the core of this strategy has been a focus on the expansion of our business lines and, thus, revenue streams as well as a keen commitment to extracting value from our existing portfolio of investments across sectors and asset classes.

As a result, our performance in 2016 saw GFH deliver a consolidated net profit of US$233.05 million versus US$12.02 million in 2015, an increase of 1839%. Importantly, net profits before provisions were an even more significant US$454.16 million for 2016.

Operationally, we also took steps to further strengthen the Group throughout the year. This included the further building of our human capital in key areas and in line with our ongoing diversification. Among our senior hires during the year were new heads at our GFH Capital and GFH Real Estate subsidiaries as well as a new head of Investment Management on the Group level.

Asset Management

Looking at our core business lines, GFH continued to build its asset portfolio with the completion, in late 2016, of our second acquisition of a US-based industrial real estate portfolio in a deal valued at US$58 million. The portfolio includes 11 income producing distribution, warehousing and industrial properties in the Midwest region of the US across three states. The portfolio is well diversified in terms of tenant base and location strengthening the portfolio's performance. The portfolio also benefits from a regular cash flow stream resulting from long leases as well as strong single and multi-tenanted tenant base in the properties. With this acquisition, GFH has further strengthened its foothold in the US industrial real estate sector and better positioned itself to take advantage of the strong fundamentals supporting this growing market segment.

Looking at the performance of our existing US$115 million portfolio of industrial real estate in the US, which includes 17 income-generating industrial, warehousing and distribution assets across six states, results were above budgets. Also benefiting from favorable demographics and other supporting trends returns for the year surpassed originally anticipated cash-on-cash yields validating our investment rationale and our overall view on this segment of the US real estate market.

GFH's US$48 million investment in Jeddah Mall, acquired in 2015, is performing satisfactorily in accordance with the plan. It continues to benefit from its attractive location in Jeddah and has seen other key progress including the notable addition of a LuLu Hypermarket to the mall's tenants which will attract and drive further traffic to the mall. GFH's residential portfolio in the US, acquired in 2014, is delivering higher than targeted distributions to our investors and an exit would be considered at an opportune time taking into consideration the robust market conditions in the US.

CHAIRMAN'S REPORT (continued)
for the year ended 31 December 2016

We go into 2017 being optimistic about real estate as an asset class and continue to leverage our strong relationships with market participants in order to identify other medium to long term, income yielding opportunities across various markets and sectors within real estate both in the US and elsewhere that we believe can add value in the coming years..

Private Equity
Our private equity arm also continued to make notable investments in 2016. Alongside Abu Dhabi Financial Group, we announced the establishment of ADCorp, the first Islamic financial institution at the Abu Dhabi Global Market. Focused on Corporate Finance, Wealth and Asset Management, ADCorp is being led by financial industry veteran Talal Al Zain, who is widely recognised as one of the region's leading asset management executives. With this investment GFH continues to look for opportunities to maximise and capture the ongoing growth in Islamic investment and finance globally. We expect ADCorp to start operations in the first half of 2017.

Building on our existing investments and success in regional education, we also made two additional investments in the regional education market during 2016. In October, we announced the launch of US$46 million investment in AMA International University, Bahrain, which comprises of a university as well as a school. AMA is a premier institution which focuses on providing quality education to local and international students in Bahrain. AMA University has a current enrollment of 5,550 students and AMA School has an enrollment of approximately 1,600 students.

During the fourth quarter, we added the British School of Bahrain to our investment portfolio. The School, which has a strength of c. 2,400 students, has received an "Outstanding" ranking in Bahrain placing it among a select group of only five local educational institutions to have received such recognition.
GFH's existing investments in the regional education sector, made in 2014 and 2015, also continued to deliver solid performance and meet targeted cash dividends for our investors. GFH believes that positive demographics in the GCC underpin the defensive nature of the education sector and allow for the provision of steady cash flows and attractive returns for the Group and our investors. We will continue to evaluate and pursue additional profitable opportunities in education sector, where have now built a strong presence and track record for value creation.

Another noteworthy transaction during 2016 was the Arab Petroleum Investments Corporation (APICORP)'s acquisition of a 30% shareholding in Falcon Cement, a GFH portfolio company. APICORP, created by Organization of Arab Petroleum Exporting Countries, is a key addition to the company's shareholders and board and their investment provides additional resources to ensure Falcon continues to build on its market leading position and benefits from positive trends in building and real estate. We look forward to working with APICORP and developing this into a strategic business partnership for GFH.

Commercial Banking
Over the past year, our commercial banking activities also witnessed significant growth despite challenging market conditions resulting from ongoing global and regional economic difficulties and geopolitical uncertainty. Khaleeji Commercial Bank (KHCB), our commercial banking subsidiary, continued to deliver on its strategy, which has been focused on growing its share of the Bahrain Islamic banking market. Success towards this objective was tangible and, according to plan, resulted in the expansion of the Bank's corporate and retail client base including its ability to attract and retain high net worth individuals. This growth was supported by the development of a more comprehensive range of high-quality Shari'a compliant banking products and solutions as well as a result of significant enhancements made in efficiency, service quality and technological innovation which will continue to be a focus in the year ahead.

For the 2016 financial year, the Bank reported profits before impairments of US$30.67 million, representing an increase of 10.2% over 2015. It also continued impressive growth in its loan book, which rose 12% year-on-year to US$1.17 billion. Similarly, Customer Deposits grew by 32% to $1.7 billion, decreasing the Bank's loan/deposit ratio from 81% to 69% year-on-year.

Furthermore, in support of future growth and market expansion, KHCB adopted a conservative provisioning policy in 2016, setting aside US$35.76 million in impairments to guard against any potential drops in asset values as well as maintaining a strong overall capital adequacy ratio of 18% and satisfactory levels of liquidity.

Real Estate Development

During the year, GFH strengthened its real estate platform and ability to build value in this important business line in which we have long been pioneers. GFH Real Estate (GFH RE) was launched in 2016 as a dedicated entity that is now engaged in a range of project development and management activities. This includes the launch of its own direct development projects and the oversight of others associated with the Group, particularly in the UAE and Bahrain.

Significant milestones were reached in our real estate activities and projects under development. We are particularly pleased with the re-commencement of construction work at Villamar, the landmark US$700 million residential and commercial complex spread over 35,900 square meters at the Bahrain Financial Harbour (BFH). After a period of inactivity, Gulf Holding Company, the project's developer, announced the conclusion of a final Sukuk restructuring agreement with Al Rajhi Bank (the project financier) and GFH (the project sponsor). The agreement serves to effectively reschedule the project's finances and officially re-launch works. This was a major achievement given Villamar's iconic position on the Bahrain skyline. With the rescheduling of the project's finances, the way is now paved towards swift completion of Phase 1 expected in 2018.

Also at BFH, we made significant strides ahead on our Harbour Row and Harbour Walk project, a US$150 million mixed-use real estate development comprised of luxury residential units along with premium commercial spaces featuring waterfront living, retail and dining experiences. A major contract was awarded during the year to Almoayyed Contracting Group, one of the region's leading full-service general contractors, for the development of the project as a result of their ability to meet the project unique and high specification requirement standards. The project which is being managed by GFHRE, also successfully received all pre-authorization approvals for the project work commencement with mobilization now well underway.

In the UAE, our California Village project, a mixed-use development and gated community, also progressed in 2016. Key steps were taken which resulted in mobilization of the project and the commencement of infrastructure work.

Similarly, advancements were made in our projects in North Africa during 2016. Our Tunis Financial Harbour project took further shape during the year with a number of major milestones reached. This included the progression of the Joint Venture agreement for the development of project's golf course and surrounding villas. In addition, the project company was able to sign an agreement with a well-known contractor for the infrastructure works for Phases 1 and 2 on which works are expected to commence in early 2017. Additionally, the framework agreement signed to develop the mall has progressed and it is expected that a final design will be available in first quarter 2017. These steps all serve to further enhance the value of the project, attract more investment and, ultimately, pave way for the next phases of this mega project to proceed.

Our 'Gateway to Morocco' project also saw considerable progress. During 2016 key accomplishments included approval on the new Master Plan which was granted by the government authority (the Wali) of Marrakech. The plan was forwarded to the Ministerial Committee to extend the investment agreement. The new concept plan features residential, retail and commercial components, along with a theme park. New designs and specifications were adopted in order to meet market demands and government requirements. The project is being developed through a phased approach. The first phase to be developed consists of a Dubai-style shopping and entertainment area along with a residential element. In this regard, several alternatives for financing are being discussed with banks and potential investors.

The Mumbai Economic Development Zone (MEDZ) project also advanced at a steady pace. The Wadhwa Group, the joint development partners, submitted the project's master plan for the land allocated for Phase 1 with the project subsequently receiving the Letter of Intent from the local Special Planning Authority. Wadhwa has also received Stage 1 environment clearance for development under Phase 1. As such, the site preparation works are in progress and particularly the associated roads for the township. Permissions have also been obtained from the Railways Department for construction of a rail-under-bridge, which ensures connectivity to the National Highway with work under progress on the same. The Adani Group, the joint development partner, have also currently appointed HOK as the architect and master planner to finalize the overall master plan for the development of the land. Adani have also made the requisite applications to the State Government for approval of development of Phases 2 and 3 lands as a Special Township Project.

Distributions to Investors

Throughout 2016, we continued to distribute strong dividends to investors in line with our progressive dividend policy. In total, the Group returned dividends to its investors from underlying investments in the, UAE, KSA and the US primarily from investments in real estate and education sectors.

This includes 8.2% returns for 2016 from our Sheffield Private School (SPS) investment and 7% from the Philadelphia Private School (PPS) in the UAE, 11% from our Jeddah Mall investment in KSA and returns of 9% and 8.5% from our Diversified US Residential Portfolio (DURP) and US Industrial portfolio, respectively.

Debts and Liabilities

In line with the Group's focus on continuing to strengthen its financial position, in 2016 we continued our focus on maintaining prudent levels of leverage. In doing so, we took important steps to minimize our overall financing liabilities in order to improve liquidity and enhance our investment and risk profile. Our timely debt repayments are a testimony to soundness of our financial and business practices and the strength of the financial foundations on which we are building. During 2016, GFH debt repayments amounted to US$74 million. The 2016 debt repayments included the full prepayment and settlement of a financing facility drawn down in 2006, which originally amounted to US$300 million.

Moreover, the Group remains firmly focused on strengthening its balance sheet and credit rating, and these scheduled repayments are part of our ongoing commitment to maintaining a healthy financial profile. Over the past nine years, we have significantly deleveraged our balance sheet, with GFH's consolidated financing liabilities reducing from US$1 billion in 2008 to US$112 million currently, and an extremely healthy debt to equity ratio of 16%.

Based on future cash flow estimates, we remain on track to repay all our outstanding debts as they fall due. Our confidence stems from our overall strategy, which is focused on unearthing additional value from our assets and expanding revenue streams. It has been encouraging to see new business income from all of GFH's subsidiaries, as well as our commercial and investment banking divisions during 2016. We expect more of the same in the year ahead.

Related parties
Please refer to note 24 of the consolidated financial statements, for transactions between GFH and its directors or entities in which the directors are interested.

Recoveries & Legal Cases
During 2016, the Board of GFH resolved to approve the proposed out of court settlement with certain counterparties whereby the Group received assets amounting to US$464m.

Following the completion of the requisite due diligence exercises, on the aforesaid assets and fulfilment of the pertinent obligation, the total net value of the assets recovered has reached to US$464m, reflecting a great enhancement to the financial results of the Group and hence maximizing the shareholder's value. In future, GFH expects to generate additional revenue and value as it maximizes the potential of these assets recived in settlements.

Conclusion
Looking to the year ahead, we are confident of our ability to continue to build on the momentum we have established and the solid foundations that are now firmly in place for further growth. These strides are a direct result of the dedication of our management team and staff who have worked tirelessly to establish GFH as the solid financial group that we are today. There is no question that great challenges have been posed, but we have emerged stronger and better positioned than ever for success.

We would also like to thank our shareholders and investors, both new and existing, for their ongoing confidence in our strategy, prospects and, importantly, our ability to deliver on their behalf now and in the future. Similarly, our deep gratitude and appreciation is extended for the ongoing support afforded us by the Central Bank of Bahrain, the Government of the Kingdom of Bahrain and its wise leadership 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.

In concluding and, as we go forward, we remain committed to creating even greater value and delivering stronger levels of returns and profitability for the benefit of our shareholders, investors and all stakeholders of the Group. We will achieve this through the continued expansion of our portfolio of solid, income yielding investments and the effective management of what is now a strong and diverse base of assets. We enter 2017 with great confidence in the future of our Group and look forward to keeping you apprised of our activities and progress in the months ahead.

Sincerely,

Dr. Ahmed Al-Mutawa
Chairman

5th February 2017

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

GFH Financial Group BSC
Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of GFH Financial Group BSC (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, cash flows, changes in restricted investment accounts and sources and uses of zakah and charity fund 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, its consolidated changes in owners' equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of zakah and charity fund 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.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 19 in the consolidated financial statements, which describes "income from settlement of litigations".

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and Associated Resolutions, the Bahrain Bourse rules and procedures 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
5 February 2017

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

	Note	**31 December 2016**	31 December 2015
ASSETS			
Cash and bank balances	4	156,448	122,165
Placements with financial institutions		213,898	122,348
Financing assets	5	961,490	859,421
Investment securities	6	527,203	573,453
Assets acquired for leasing		246,257	179,870
Investment properties	7	488,436	257,932
Development properties	8	280,972	179,577
Equity-accounted investees	9	79,010	81,274
Intangible assets	19	54,891	-
Property, plant and equipment	10	169,153	25,602
Other assets	11	125,643	248,160
Total assets		**3,303,401**	2,649,802
LIABILITIES			
Investors' funds		44,565	27,728
Placements from financial institutions, other entities and individuals	12	570,515	340,090
Customer current accounts		192,783	154,052
Financing liabilities	13	168,992	153,619
Other liabilities	14	182,649	135,977
Total liabilities		**1,159,504**	811,466
Equity of investment account holders	15	**1,022,190**	944,915
OWNERS' EQUITY			
Share capital	16	597,995	597,995
Treasury shares		(340)	(4,053)
Capital adjustment account		24,320	22,420
Statutory reserve		93,768	72,055
Retained earnings		201,993	6,581
Investment fair value reserve		-	(230)
Share grant reserve	17	902	893
Foreign currency translation reserve		(10,614)	-
Total equity attributable to shareholders of the Bank		**908,024**	695,661
Non-controlling interests		213,683	197,760
Total owners' equity (page 10)		**1,121,707**	893,421
Total liabilities, equity of investment account holders and owners' equity		**3,303,401**	2,649,802

The consolidated financial statements consisting of pages 8 to 74 were approved by the Board of Directors on 5 February 2017 and signed on its behalf by:

Ahmed Al Mutawa	Mosabah Saif Al Mautairy	Hisham Alrayes
Chairman	Vice Chairman	Chief Executive Officer & Board Member

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

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

	Note	**2016**	2015
Continuing operations			
Income from investment banking services		3,322	23,822
Fees and commission income		15,399	6,491
Income from placements with financial institutions		1,818	1,585
Income from financing assets and assets acquired for leasing		70,148	56,890
Share of profits of equity-accounted investees	9	846	3,025
Income from investment securities, net	18	3,888	12,825
Foreign exchange loss, net		(2,424)	(146)
Gain on sale of investment and development property		46,082	8,370
Other income, net	20	17,728	10,145
Operating income before return to investment account holders and finance expense		**156,807**	123,007
Return to investment account holders before Group's share as Mudarib		(43,200)	(43,598)
Bank's share as Mudarib		24,219	25,334
Return to investment account holders	15	**(18,981)**	(18,264)
Less: Finance expense		(23,437)	(16,758)
Operating income		**114,389**	87,985
Income from settlement of litigations	19	464,567	-
Total income		**578,956**	87,985
Staff cost	21	56,464	30,464
Investment advisory expenses		16,504	6,469
Other operating expenses	22	51,828	25,176
Total expenses		**124,796**	62,109
Profit before impairment allowances		**454,160**	25,876
Less: Impairment allowances	23	(221,112)	(17,016)
Profit from continuing operations		**233,048**	8,860
Discontinued operations			
Profit from industrial business, net		-	3,165
PROFIT FOR THE YEAR		**233,048**	12,025
Profit / (loss) for the year attributable to:			
Shareholders of the Bank		217,125	(5,520)
Non-controlling interests		15,923	17,545
		233,048	12,025
Earnings per share			
Basic and diluted earnings per share (US cents)		**9.59**	(0.25)
Earnings per share – continuing operations			
Basic and diluted earnings per share (US cents)		**9.59**	(0.30)

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2016 US$ 000's

	Attributable to shareholders of the Bank										
2016	**Share capital**	**Treasury shares**	**Capital adjustment account**	**Statutory reserve**	**Retained earnings**	**Investment fair value reserve**	**Share grant reserve**	**Foreign currency translation reserve**	**Total**	**Non – controlling interests**	**Total owners' equity**
Balance at 1 January 2016	597,995	(4,053)	22,420	72,055	6,581	(230)	893	-	695,661	197,760	893,421
Profit / (loss) for the year (page 9)	-	-	-	-	217,125	-	-	-	217,125	15,923	233,048
Transfer to income statement on disposal	-	-	-	-	-	230	-	-	230	-	230
Foreign currency translation differences	-	-	-	-	-	-	-	(10,614)	(10,614)	-	(10,614)
Total recognised income and expense	**-**	**-**	**-**	**-**	**217,125**	**230**	**-**	**(10,614)**	**206,741**	**15,923**	**222,664**
Purchase of treasury shares	-	(6,878)	-	-	-	-	-	-	(6,878)	-	(6,878)
Sale of treasury shares	-	10,591	-	-	-	-	-	-	10,591	-	10,591
Gain on sale of treasury shares	-	-	1,900	-	-	-	-	-	1,900	-	1,900
Transfer to statutory reserve	-	-	-	21,713	(21,713)	-	-	-	-	-	-
Share grants vesting expense, net of forfeitures	-	-	-	-	-	-	9	-	9	-	9
Balance at 31 December 2016	**597,995**	**(340)**	**24,320**	**93,768**	**201,993**	**-**	**902**	**(10,614)**	**908,024**	**213,683**	**1,121,707**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2016 (continued) US$ 000's

2015	Attributable to shareholders of the Bank: Share Capital	Treasury shares	Capital adjustment account	Statutory reserve	Retained earnings / (accumulated losses)	Investment fair value reserve	Share grant reserve	Foreign currency translation reserve	Total	Non – controlling interests	Total owners' equity
Balance at 1 January 2015	1,253,626	(912)	(475,582)	70,060	(203,608)	(2,366)	1,129	(780)	641,567	376,088	1,017,655
(Loss) / Profit for the year	-	-	-	-	(5,520)	-	-	-	(5,520)	17,545	12,025
Fair value changes	-	-	-	-	-	(203)	-	-	(203)	-	(203)
Foreign currency translation differences	-	-	-	-	-	-	-	(302)	(302)	(117)	(419)
Total recognised income and expense	-	-	-	-	(5,520)	(203)	-	(302)	(6,025)	17,428	11,403
Conversion of Murabaha to capital	241,361	-	(181,361)	-	-	-	-	-	60,000	-	60,000
Capital reduction	(896,992)	-	679,665	-	217,327	-	-	-	-	-	-
Purchase of treasury shares	-	(4,594)	-	-	-	-	-	-	(4,594)	-	(4,594)
Sale of treasury shares	-	1,453	-	-	-	-	-	-	1,453	-	1,453
Loss on sale of treasury shares	-	-	(302)	-	-	-	-	-	(302)	-	(302)
Transfer to income statement on disposal of investments	-	-	-	-	-	2,339	-	-	2,339	-	2,339
Transfer to statutory reserve	-	-	-	1,995	(1,995)	-	-	-	-	-	-
Share grants vesting expense, net of forfeitures	-	-	-	-	-	-	(236)	-	(236)	-	(236)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(3,979)	(3,979)
Derecognition on loss of control	-	-	-	-	377	-	-	1,082	1,459	(191,777)	(190,318)
Balance at 31 December 2015	597,995	(4,053)	22,420	72,055	6,581	(230)	893	-	695,661	197,760	893,421

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

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

	2016	2015
OPERATING ACTIVITIES		
Profit for the year	**233,048**	12,025
Adjustments for:		
Impairment allowances	221,112	17,016
Income from investment securities	(3,888)	(12,825)
Share of profit of equity-accounted investees	(846)	(3,025)
Foreign exchange loss	2,424	146
Gain on sale of investment and development property	(46,082)	-
Income from settlement of litigations	(464,567)	-
Finance expenses	23,437	16,758
Other income	(17,728)	(18,515)
Depreciation and amortisation	3,784	2,995
Investment banking income	-	(23,822)
	(49,306)	(9,247)
Changes in:		
Placements with financial institutions	(5,108)	-
Financing assets	(102,069)	(76,793)
Asset acquired for leasing	(66,387)	(69,281)
Other assets	90,405	29,582
Investor's funds	16,837	(13,384)
Placements from financial institutions, other entities and individual	230,425	632
Customer current accounts	38,731	62,766
Other liabilities	(64,457)	(59,651)
Equity of investment account holders	77,275	49,357
Movement in CBB reserve	(2,613)	(5,290)
Net cash generated from / (used in) operating activities	**163,733**	(91,309)
INVESTING ACTIVITIES		
Payment for purchase of equipment, net	(1,118)	(663)
Purchase of investment securities	(93,546)	(208,147)
Proceeds from sale of investment securities	91,531	144,289
Dividends received	9,422	11,942
Proceeds from sale of investment propety	7,353	-
Derecognition of a subsidiary on loss of control	-	(11,007)
Net cash generated from / (used in) investing activities	**13,642**	(63,586)
FINANCING ACTIVITIES		
Financing liabilities, net	(42,310)	(31,073)
Finance expense paid	(20,666)	(8,335)
Proceeds from issue of convertible murabaha	-	60,000
Sale of treasury shares, net	3,713	(3,141)
Dividends paid (including non-controlling interests)	-	(1,753)
Net cash (used in) / generated from financing activities	**(59,263)**	15,698
Net increase / (decrease) in cash and cash equivalents during the year	**118,112**	(139,197)
Cash and cash equivalents at 1 January	194,460	333,657
CASH AND CASH EQUIVALENTS at 31 December	**312,572**	194,460
Cash and cash equivalents comprise:		
Cash and balances with banks	103,782	72,112
Placements with financial institutions (with original maturity of three months or less)	208,790	122,348
	312,572	194,460

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2016

31 December 2016	**Balance at 1 January 2016**			**Movements during the year**						**Balance at 31 December 2016**		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.33	52	-	-	-	-	-	-	150	0.33	52
Al Basha'er Fund	93	6.95	646	-	(9)	-	-	-	-	93	6.85	637
Safana Investment (RIA 1)	8,313	2.65	22,050	(5,329)	-	-	-	-	-	6,304	2.65	16,721
Janayen Holding Limited (RIA 4)	48,082	0.48	22,546	(22,546)	-	-	-	-	-	-	-	-
Shaden Real Estate Investment WLL (RIA 5)	3,728	2.65	9,888	(202)	-	-	-	-	-	3,652	2.65	9,686
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			57,815	**(28,077)**	**(9)**	**-**	**-**	**-**	**-**			**29,729**

31 December 2015	Balance at 1 January 2015			Movements during the year						Balance at 31 December 2015		
Company	No. of units (000)	Average value per share US$	Total US$ 000's	Investment/ (withdrawal) US$ 000's	Revaluation US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Group's fees as an agent US$ 000's	Administration expenses US$ 000's	No. of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	52	-	-	-	-	-	-	150	0.35	52
Al Basha'er Fund	93	7.89	734	-	(88)	-	-	-	-	93	6.95	646
Safana Investment (RIA 1)	8,313	2.65	22,050	-	-	-	-	-	-	8,313	2.65	22,050
Janayen Holding Limited (RIA 4)	48,082	0.25	12,095	-	58	10,737	-	-	(344)	48,082	0.48	22,546
Shaden Real Estate Investment WLL (RIA 5)	8,100	2.65	21,485	(11,597)	-	-	-	-	-	3,728	2.65	9,888
Locata Corporation Pty Ltd (RIA 6)	2,633	1.00	2,633	-	-	-	-	-	-	2,633	1.00	2,633
			59,049	(11,597)	(30)	10,737	-	-	(344)			57,815

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the year ended 31 December 2016 US$ 000's

	2016	2015
Sources of zakah and charity fund		
Non-Islamic income (note 28)	95	166
Total sources	**95**	166
Uses of zakah and charity fund		
Utilisation of zakah and charity fund	(610)	(2,541)
Total uses	**(610)**	(2,541)
Deficit of uses over sources	**(515)**	(2,375)
Undistributed zakah and charity fund at 1 January	2,675	5,050
Undistributed zakah and charity fund at 31 December (note 14)	**2,160**	2,675
Represented by:		
Zakah payable	267	751
Charity fund	1,893	1,924
	2,160	2,675

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

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

1 REPORTING ENTITY

GFH Financial Group BSC (“the Bank”) was incorporated as Gulf Finance House BSC in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates under an Islamic Wholesale Investment Banking license issued by the Central Bank of Bahrain (“CBB”). The Bank’s shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges.

The Bank’s activities are regulated by the CBB and supervised by a Religious Shari’a Supervisory Board whose role is defined in the Bank’s Memorandum and Articles of Association. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Bank’s Shari’a Supervisory Board.

Consolidated financial statements

The consolidated financial statements for the year comprise the results of the Bank and its subsidiaries (together referred to as “the Group”). The principal subsidiaries of the Bank consolidated in these financial statements are:

<table>
<tr><th rowspan="2">Investee name</th><th rowspan="2">Country of incorporation</th><th rowspan="2">Parent / Owning Company</th><th colspan="2">Effective ownership interests</th><th rowspan="2">Activities</th></tr>
<tr><th>2016</th><th>2015</th></tr>
<tr><td>GFH Capital Limited</td><td>United Arab Emirates</td><td rowspan="8">GFH Financial Group BSC</td><td>100%</td><td>100%</td><td>Investment management</td></tr>
<tr><td>Khaleeji Commercial Bank BSC (‘KHCB’)</td><td>Kingdom of Bahrain</td><td>46.965%</td><td>46.965%</td><td>Islamic retail bank</td></tr>
<tr><td>Morocco Gateway Investment Company (‘MGIC’)</td><td>Cayman Islands</td><td>33.53%</td><td>33.53%</td><td>Real estate development</td></tr>
<tr><td>Capital Real Estate Co BSC (c) (‘CRE’)</td><td>Kingdom of Bahrain</td><td>60.00%</td><td>60.00%</td><td>Real estate development</td></tr>
<tr><td>Al Areen Hotels SPC *</td><td>Kingdom of Bahrain</td><td>100%</td><td>-</td><td>Hospitality management</td></tr>
<tr><td>Al Areen Project companies *</td><td>Kingdom of Bahrain</td><td>100%</td><td>-</td><td>Real estate development</td></tr>
<tr><td>British School of Bahrain *</td><td>Kingdom of Bahrain</td><td>100%</td><td>-</td><td>Education</td></tr>
<tr><td>Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC *</td><td>Kingdom of Bahrain</td><td>100%</td><td>-</td><td>Amusement and theme park</td></tr>
<tr><td>Surooh Company (‘Surooh’)</td><td>Cayman Islands</td><td rowspan="2">KHCB</td><td>10.00%</td><td>10.00%</td><td>To construct and sell properties at “Oryx Hills”.</td></tr>
<tr><td>Eqarat Al Khaleej (‘Eqarat’)</td><td>Cayman Islands</td><td>19.80%</td><td>19.80%</td><td>To buy, sell and renting income producing properties across the GCC.</td></tr>
</table>

* Represents subsidiaries acquired as part of settlement of litigations Refer note 19

The Bank has other SPE holding companies and subsidiaries, which are set up to supplement the activities of the Bank and its principal subsidiaries.

During the year, the Bank entered into a Memorandum of Understanding to acquire an Islamic wholesale bank in Bahrain subject to agreeing final acquisition value, due diligence, regulatory and shareholder approvals. As at the reporting date, the transaction is still in progress and a final outcome is expected to be known by first half of 2017.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by Group.

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and in conformity with Bahrain Commercial Companies Law. In line with the requirement 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 Standard (IFRS).

New standards, amendments and interpretations effective from 1 January 2016

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016 and are expected to be relevant to the Group.

FAS 27 – Investments Accounts

FAS 27 Investments accounts was issued in December 2014 replacing FAS 5 – 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 – 'Equity of Investment Account Holders and their Equivalent'. The adoption of this standard expanded the disclosures related to equity of Investment Account Holders. The standard had no significant impact on the consolidated financial statements of the Bank. Refer to note 16 for the additional disclosure.

ii. New standards, amendments and interpretations issued but not yet effective

No new standards, amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 2017.

b) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for the measurement at fair value of certain investment securities. The Group classifies its expenses in the consolidated income statement by the nature of expense method. 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.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

c) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation (continued)

activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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 within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in the consolidated income statement.

(ii) 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 commences until when control ceases.

(iii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

(iv) Special purpose entities

The consolidated financial statements of the Group comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. 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. Control is presumed to exist, when the Bank owns majority of voting rights in an investee.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation (continued)

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 an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are usually not included in these consolidated financial statements. Information about the Group's fiduciary assets under management is set out in note 25.

(v) Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any surplus or deficit arising on the loss of control is recognised in consolidated income statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for investment securities depending on the level of influence retained.

(vi) 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 exits 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 organisation 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 to note 2 (f)).

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 recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investees 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 investees, 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. Equity accounting is discontinued when an associate is classified as held-for-sale.

(vii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency translation gains or losses) from intra-group transactions with subsidiaries 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 unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and equity- accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements 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 dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the reporting date.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date 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 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.

(iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

e) Offsetting of financing instruments

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

f) Investment securities

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

(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:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment securities (continued)

At fair value through income statement (FVTIS)
These investments are either not managed on contractual yield basis or designated on initial recognition as FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

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 or 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. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported internally by the management on a fair value basis.

At fair value through equity (FVTE)
Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. These include investments in certain quoted and unquoted equity securities.

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

(iii) Measurement
Investment securities are measured initially at fair value plus, except for investment securities carried at FVTIS, transaction costs that are directly attributable to its acquisition or issue.

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 investment fair value reserve in equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment securities (continued)

The fair value gains / (losses) are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. 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 income statement.

Investments 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 there are no other appropriate methods from which to derive reliable fair values, are stated at cost less 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 amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through use of an allowance account) for impairment or uncollectibility. 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. When available, the Group measures the fair value of an instrument using quoted 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, 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 analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

g) Financing assets

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Istisna and Wakala contracts. Financing assets are recognised on the date at which they are originated and are carried at their amortised cost less impairment allowances, if any.

h) Assets acquired for leasing

Assets acquired for leasing (Ijarah Muntahia Bittamleek) comprise finance lease assets which are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. 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 (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Placements with and from financial and other institutions

These comprise placements made with financial and other institutions or received under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

j) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and short-term highly liquid assets (placements with financial institutions) with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day to day operations of the Group are not included in cash and cash equivalents.

k) Investment property

Investment property comprise land plots and buildings. Investment property is property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured initially at cost, including directly attributable expenses. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment allowances (if any). Land is not depreciated.

A property is transferred to investment property when, there is change in use, evidenced by:

(i) end of owner-occupation, for a transfer from owner-occupied property to investment property; or

(ii) (ii) commencement of an operating ijara to another party, for a transfer from a development property to investment property.

Further, an investment property is transferred to development property when, there is a change in use, evidenced by:

(i) commencement of own use, for a transfer from investment property to owner-occupied property;

(ii) commencement of development with a view to sale, for a transfer from investment in real estate to development property.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

l) Development properties

Development properties are properties held for sale or development and sale in the ordinary course of business. Development properties are measured at the lower of cost and net realisable value.

m) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projection if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(m) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in the consolidated income statement.

The estimated useful lives of property, plant and equipment of the industrial business assets are as follows:

Buildings and infrastructure on lease hold	15 – 30 years
Plant and machinery	8 – 40 years
Tools and dies	3 years
Computers	3 – 5 years
Furniture and fixtures	5 – 8 years
Motor vehicles	4 – 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts, being the higher of the fair value less costs to sell and their value in use.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in the consolidated statement of income in the year of derecognition.

The assets' residual values, useful lives and methods of depreciation are reviewed annually and adjusted prospectively if appropriate.

n) Intangible assets

Goodwill
Goodwill that arises on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other Intangible assets
Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Subsequently, intangible assets are recognised at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the consolidated income statement in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expenses category consistent with the function if intangible assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(n) Intangible assets (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Intangible assets with indefinite useful life consists of a license to construct and operate a cement plant in the Kingdom of Bahrain.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are reocognised in the consolidated statement of income when the asset is derecognised.

o) 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 unrealised re-measurement loss is 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 in the consolidated income statement and are not reversed subsequently.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(o) Impairment of assets (continued)

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.

p) Investors funds
These represent funds of projects set-up and promoted by the Group and placed with the Group pending disbursement to the projects concerned and carried at amortised cost.

q) Customers' current accounts
Balances in current (non-investment) accounts are recognised when received by the Group. The transactions are measured at the cash equivalent amount received by the Group at the time of contracting. At the end of the accounting period, the accounts are measured at their book value.

r) Financing liabilities
Financing liabilities represents facilities from financial institution, and financing raised through Sukuk. 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 cost, dividends and losses relating to the financial liabilities are recognised in the consolidated income statement as finance expense. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

If any financing liability is extinguished by issuing the Bank's ordinary shares, the Bank recognises the difference between the carrying amount of the financing liability extinguished and fair value of the shares issued in the consolidated income statement.

Financing liabilities include compound financial instrument in the form of 'convertible murabaha' issued by the Group that can be converted to share capital at the option of the holder. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible murabaha is measured at amortised cost using the effective profit rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (note 34).

t) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

u) 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 and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's consolidated income statement on the sale of treasury shares.

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. Appropriation to statutory reserve is made when approved by the shareholders.

v) Equity of investment account holders

Equity of investment account holders are funds held by the Group, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Equity of Investment account holders are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(u) Equity of investment account holders (continued)

Profit equalisation reserve is the amount appropriated by the Bank out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Bank out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of these reserves results in an increase in the liability towards the pool of investment accounts holders.

Restricted investment accounts
Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

w) Assets held-for-sale and discounted operations

i) Classification
The Group classifies non-current assets or disposal groups as held-for-sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. 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 initially recognised at its fair value less costs to sell and is classified as disposal group 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, amortisation, equity accounting adjustments 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.

ii) Measurement
Non-current assets or disposal groups classified as held-for-sale, other than financial instruments, 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(v) Assets held-for-sale and discontinued operations (continued)

iii) 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.

x) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that future economic benefits associated with the item of revenue will flow to the Group, the revenue can be measured with reliability and specific criteria have been met for each of the Group's activities as described below:

Banking business

Commission income

Income from placements with / from 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.

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

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

Income from Murabaha and Wakala contracts are recognised on a time-apportioned basis over the period of the contract using the effective profit method.

Profit or losses in respect of the Bank's share in **Musharaka financing** transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the Musharaka agreement.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term.

Income from sukuk and income / expenses on placements is recognised at its effective profit rate over the term of the instrument.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(w) Revenue recognition (continued)

Non banking business
Revenue from the sale of goods is recognised when customer takes possession.

Revenue from rendering of services is recognised when services are rendered.

y) Earnings prohibited by Shari'a
The Group is committed to avoid recognising 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.

z) Zakah
Pursuant to the decision of the shareholders', the Group is required to pay Zakah on its undistributed profits. 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 distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board.

aa) Employees benefits

(i) Short-term benefits
Short-term employee benefit obligations 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. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
(z) Employment benefits (continued)
(ii) Post employment benefits (continued)

The Group also operates a voluntary employees saving scheme under which the Group and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Group. The scheme is in the nature of a defined contribution scheme and contributions by the Group are recognised as an expense in the consolidated income statement when they are due.

(iii) Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the "Scheme") whereby employee are granted the Bank's shares as compensation on achievement of certain non-market based performance conditions and service conditions (the 'vesting conditions').

The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

bb) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

cc) 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.

dd) 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.

ee) Investment account holder protection scheme

Funds held with the Group in unrestricted investment accounts and current accounts of its retail banking subsidiary are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

The Scheme applies to all eligible accounts held with the retail bank subject to certain specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

3 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.

Judgements

(i) 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 carried 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 2 (f)).

(ii) 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.

(iii) Classification as held-for-sale

The Group classifies non-current assets (or disposal group) as held-for-sale when the carrying amount will be recovered principally through a sale transaction rather than continuing use. In such case, the asset is available for immediate sale in its present condition subject to only to terms that are usual and customary for sale of such assets and the sale is highly probable. Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value.

Estimations

(i) Fair value of investments

The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies, and based on the latest available audited and un-audited financial statements. 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.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(ii) Impairment on investments carried at fair value carried through equity

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 9 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of the investee companies' financial health, industry and sector performance.

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 real estate and infrastructure development projects (2016: US$392,004 thousand; 2015: US$ 288,099 thousand). In making an assessment of impairment, the Group evaluates among other factors, ease of raising liquidity for the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, 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, long term asset objectives 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.

(iii) Impairment of investment property

The Group conducts impairment assessment of investment property periodically using external independent property valuers to value the property. The fair value is determined based on the market value of the property either by comparable method or the residual value basis to assess the market value of the sites considering its current physical condition. The Group's investment property are situated in Bahrain, UAE and Morocco. Given the dislocation in the local property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of other 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 by the Risk Management Department.

(v) Impairment of financing assets

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 and the net realisable value of any underlying assets / collaterals.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department. For the purposes of a collective evaluation of impairment, financing assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The methodology and assumptions used for the grading process and estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In view of the management, the current level of provisioning is adequate and no additional impairment allowances are required on a collective basis.

(vi) Impairment of other non-financial assets and cash generating units

Investment in associates and recognised goodwill are subject to an impairment based on indicators of performance and market conditions. Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy note 2 (o). For equity-accounted investees with indicators of impairment, the recoverable amounts is determined based on fair value less costs to sell (FVLCTS).

FVLCTS for the equity-accounted investees was determined using a combination of income and market approaches of valuations.

The objective of valuation techniques is to arrive at a fair value that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

(vii) Estimating net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. 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 development property.

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

4 CASH AND BANK BALANCES

	31 December 2016	31 December 2015
Cash	18,271	17,302
Balance with banks	53,281	40,195
Balance with Central Bank of Bahrain		
- Current account	32,230	14,615
- Reserve account	52,666	50,053
	156,448	122,165

The reserve account with the Central Bank of Bahrain is not available for day-to-day operation of the Group.

5 FINANCING ASSETS

	31 December 2016	31 December 2015
Murabaha	924,587	749,120
Musharaka	23,249	59,448
Wakala	77,947	84,130
Mudharaba	3,064	3,151
Istisna	19	92
	1,028,866	895,941
Less: Impairment allowances – specific	(55,786)	(27,279)
Less: Impairment allowances – collective	(11,590)	(9,241)
	961,490	859,421

Murabaha financing receivables are net of deferred profits of US$ 82,238 thousand (2015: US$ 89,079 thousand).

The movement on impairment allowances are as follows:

2016	**Specific**	**Collective**	**Total**
At 1 January	27,278	9,241	36,519
Net charge for the year (note 23)	35,951	2,349	38,300
Adjusted on write-off of assets	(7,443)	-	(7,443)
At 31 December	**55,786**	**11,590**	**67,376**

2015	Specific	Collective	Total
At 1 January	27,034	9,223	36,257
Net charge for the year (note 23)	2,719	18	2,737
Adjusted on write-off of assets	(2,474)	-	(2,474)
At 31 December	27,279	9,241	36,520

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

6 INVESTMENT SECURITIES

	31 December 2016	31 December 2015
Equity type investments		
At fair value through income statement:		
- Quoted securities	377	377
- Unquoted funds	-	2,050
- Unquoted securities	40,180	58,297
	40,557	60,724
At fair value through equity:		
- Managed funds (at fair value)	1,973	1,973
- Listed securities (at fair value)	103	15,242
- Unquoted securities (at cost)	287,180	326,991
	289,256	344,206
Debt type investments		
At amortised cost		
- Sovereign sukuk (quoted)	159,710	154,385
- Corporate sukuk (quoted)	35,099	6,012
- Corporate sukuk (unquoted)	2,581	8,126
	197,390	168,523
	527,203	573,453

a) Equity type investments - At fair value through income statement

	2016	2015
At 1 January	60,724	85,896
Acquisitions during the year	-	10,408
Fair value changes	(2,050)	(1,724)
Disposals during the year, at carrying value	(18,117)	(33,856)
At 31 December	**40,557**	60,724

b) Equity type investments - At fair value through equity

	2016	2015
At 1 January	344,206	314,426
Acquisitions arising from settlement (note 19)	8,800	75,273
Purchase during the year	43,885	
Fair value changes	-	(228)
Disposals during the year, at carrying value	(46,594)	(36,425)
Impairment charge for the year	(61,041)	(8,840)
At 31 December	**289,256**	344,206

Unquoted equity securities US$ 287,180 thousand (2015: US$ 326,991 thousand) classified at fair value through equity, but measured at cost less impairment in the absence of reliable measure of fair value, are primarily investment in equities of companies carrying out real estate and infrastructure development projects in different countries. The Group plans to exit these investments principally by means of strategic sell outs or sale of underlying assets.

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

6 INVESTMENT SECURITIES (continued)

During the year, the Group recognised impairment of US$ 60,817 (2015: US$ 8,840 thousand) on such assets. Impairment allowance has been established based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

7 INVESTMENT PROPERTY

	2016	2015
At 1 January	257,932	313,635
Acquisitions arising from settlement (note 19)	207,707	-
Additions during the year	53,827	-
Transfer to development property	19,395	(55,927)
Other charges	-	224
Disposals	(38,825)	-
Impairment charge (note 23)	(11,600)	-
At 31 December	**488,436**	257,932

Investment property includes land plots and buildings in Bahrain, UAE and Morocco. Investment property of carrying amount of US$ 160.70 million (2015: US$ 137 million) is pledged against Wakala facilities (note 13). Investment property of carrying amount of US$ 46.84 million is pledged against an Ijarah facility (note 13). Investment property of carrying amount of US$ 31.5 million is pledged against Sukuk liability (note 13).

The fair value of the Group's investment property at 31 December 2016 was US$ 521,187 thousand (31 December 2015: US$ 273, 370 thousand) based on a valuation carried out by an independent third party external valuers who have recent experience in the location and category of the asset being valued.

8 DEVELOPMENT PROPERTIES

Development properties represents development assets (lands) in UAE, Bahrain and North Africa. The land has been held for development and sale in the normal course of business. Development property of US$ 42.3 million is pledged against a Wakala facility (note 13).

	2016	2015
At 1 January	179,577	131,317
Acquisitions arising from settlement (note 19)	125,512	-
Additions during the year	-	67,181
Transfer to investment property	(19,395)	-
Disposals	(4,722)	(18,921)
At 31 December	**280,972**	179,577

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

9 EQUITY-ACCOUNTED INVESTEES

Equity-accounted investees represents investments in:

Name	Country of incorporation	% holding 2016	% holding 2015	Nature of business
Falcon Cement Company BSC (c)	Kingdom of Bahrain	32%	32%	Manufacturing and trading of cement
United Arab Cement Company J.S.C.	Syrian Arab Republic	38.9%	38.9%	Manufacturing of cement
Libya Investment Company	Cayman Islands	38.9%	38.9%	Holding company
Amlak II SPV	Cayman Islands	23.51%	23.51%	Purchase and sale of real estate in the Kingdom of Bahrain
Bahrain Aluminium Extrusion Company B.S.C. (c) (Balexco)	Kingdom of Bahrain	18%	18%	Extrusion and sale of aluminium products
Global Banking Corporation BSC (c)	Kingdom of Bahrain	20%	-	Islamic wholesale banking
Ensha Development Company	Kingdom of Bahrain	33.33%	-	Holding plot of land in Kingdom of Bahrain.

The movement in equity-accounted investees is given below:

	2016	2015
At 1 January	81,274	21,173
Acquisitions from settlement (note 19)	27,900	-
Additions during the year	5,454	78,802
Share of profit for the year	846	3,025
Impairment charge for the year (note 23)	(36,464)	-
Derecognition on loss of control	-	(21,726)
At 31 December	**79,010**	81,274

Equity-accounted investees includes the Group's investment of less than 20% in Balexco. As the Group exercises significant influence over the financial institution through contractual terms and by way of its presence on the board of directors, the investment is accounted for as an investment in equity-accounted investee.

Summarised financial information of associates that have been equity-accounted not adjusted for the percentage ownership held by the Group (based on most recent management accounts):

	2016	2015
Total assets	344,908	88,641
Total liabilities	111,448	38,661
Total revenues	66,563	29,178
Total net profit	5,981	5,743

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

10 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and Infrastructure on leasehold Land	Plant and machinery	Tools and dies	Computers	Furniture and fixtures	Motor Vehicles	Capital WIP	2016 Total	2015 Total
Cost:										
At 1 January	17,809	-	-	-	19,317	24,456	1,474	1,335	64,391	270,950
Acquired in a business combination (note 19)	22,242	85,927	535	-	-	6,342	25,348	5,481	145,875	-
Additions	-	-	-	-	487	931	58	2,138	3,614	7,781
Foreign exchange difference	-	-	-	-	-	-	-	-	-	(504)
Disposals	-	(1,308)	-	-	-	(379)	-	(467)	(2,154)	(2,270)
Derecognition on loss of control	-	-	-	-	-	-	-	-	-	(211,566)
At 31 December	**40,051**	**84,619**	**535**	**-**	**19,804**	**31,350**	**26,880**	**8,487**	**211,726**	64,391
Accumulated depreciation:										
At 1 January	-	-	-	-	17,471	20,427	891	-	38,789	104,575
Charge for the year	-	1,454	-	-	1,049	1,214	67	-	3,784	2,994
Foreign exchange difference	-	-	-	-	-	-	-	-	-	(1)
Derecognition on loss of control	-	-	-	-	-	-	-	-	-	(68,779)
At 31 December	-	1,454	-	-	**18,520**	**21,641**	**958**	**-**	**42,573**	38,789
Net book value:										
At 31 December	**40,051**	**83,165**	**535**	**-**	**1,284**	**9,709**	**25,922**	**8,487**	**169,153**	25,602

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

11 OTHER ASSETS

	31 December 2016	31 December 2015
Investment banking receivables	11,396	41,958
Financing to projects, net *	6,442	79,997
Reimbursement right	-	35,000
Receivable from sale of investment properties		
- Investment securities	-	992
- Investment properties	37,952	-
- Development properties	10,000	10,000
Advances and deposits	19,711	20,198
Employee receivables	19,786	14,008
Income from Sukuk receivable	3,902	3,481
Lease rentals receivable	6,825	3,419
Prepayments and other receivables	9,629	39,107
	125,643	248,160

During the year, the Group recognised US$ 51,500 thousand (31 December 2015: US$ 4,500 thousand) and US$ 20,714 thousand (2015: Nil) impairment allowance on financing to projects and other receivables respectively (note 23).

12 PLACEMENTS FROM FINANCIAL INSITUTIONS, OTHER ENTITIES AND INDIVIDUALS

These comprise placements in the form of murabaha and wakala contracts accepted from financial and other institutions (including corporates and individuals) as part of the Group's treasury activities. This includes US$ 84 million of funds placed by a non-financial entity which were subject to regulatory sanctions. During the year, these regulatory sanctions have been formally lifted.

13 FINANCING LIABILITIES

	31 December 2016	31 December 2015
Murabaha financing	-	35,851
Wakala financing	66,959	38,043
Sukuk liability	50,059	69,904
Ijarah	16,571	-
Other borrowings	35,403	9,821
	168,992	153,619

	31 December 2016	31 December 2015
Financing liabilities		
Current portion	45,210	48,174
Non-current portion	123,782	105,445
	168,992	153,619

13 FINANCING LIABILITIES (continued)

Murabaha financing

Murabaha financing comprised medium-term financing from a syndicate of banks to be repaid over 6 years on semi-annual basis commencing from August 2014. The revised profit rate on the facility is 6 months LIBOR plus margin (subject to a minimum of 5%). The Murabaha financing facilities secured by a pledge over the Group's investment in a subsidiary of carrying value of US$ 143 million and investment property of carrying value of US$ 24.6 million. During the year, the murabaha financing was fulling repaid.

Wakala financing

Wakala financing (i) (2016)

Wakala financing comprise of a facility from a financial institution. The facility is for an amount of US$ 35 million, repayable over a period of 3 years annually from November 2017 till November 2019 at a profit rate of LIBOR plus margin of 7.65% (subject to a minimum of 8%). The facility is secured by a pledge over the Group's development property of carrying value of US$ 42.3 million and investment property of carrying value of US$ 24.7 million.

Wakala financing (ii) (2009)

Wakala financing comprise is a syndicate facility from a number of financial institutions. Wakala financing is repayable over a period of six years till April 2019 at an agreed profit rate of 6%. The Wakala financing facility is secured by a pledge over the Group's investment property having a carrying value of US$ 136 million (note 7).

Sukuk liability

The Sukuk is backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions. The Sukuk were traded on the London Stock Exchange's Gilt Edged and Fixed Interest Market. Currently, the Sukuk are suspended from trading.

The Sukuk is repayable over a period of 6 years with semi-annual repayment starting from July 2014, with final instalment in July 2018. The Sukuk carry a profit rate of LIBOR plus a margin of 3%, with a minimum profit rate of 5%. The Sukuk Certificates are backed by the Group's investment securities with carrying values of US$ 92.94 million (31 December 2015: 92.94 million) and an investment property with carrying value of US$ 31.5 million (31 December 2015: US$ 31.5 million)

Ijarah facility

Represents facility from a financial institution for acquisition of a property repayable over a period of 8 years at a yield rate of 7% p.a.. The Ijarah is for an investment property of the Group with a carrying value of US$ 46.84 million.

Other borrowings

These comprise financing availed by subsidiaries relating to project development and working capital requirements.

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

14 OTHER LIABILITIES

	31 December 2016	31 December 2015
Employee related accruals	25,179	3,430
Unclaimed dividends	5,844	5,861
Mudaraba profit accrual	7,812	7,509
Provision for employees' leaving indemnities	3,109	1,999
Zakah and Charity fund (page 14)	2,160	2,675
Provision against financial guarantees	-	35,000
Accounts payable	48,177	64,266
Accrued expenses and other payables	90,368	15,237
	182,649	135,977

15 EQUITY OF INVESTMENT ACCOUNT HOLDERS (EIAH)

The funds received from investment account holders have been commingled and jointly invested with the Group in the following asset classes as at 31 December:

	31 December 2016	31 December 2015
Balances with banks	45,389	27,549
CBB reserve account	52,666	50,053
Placements with financial institutions	157,635	116,586
Debt type instruments – sukuk	197,390	168,523
Financing assets	569,110	582,204
	1,022,190	944,915

The investors' share of the return on jointly invested assets and distribution to investment account holders were as follows:

	2016	2015
Returns from jointly invested assets	(43,200)	43,598
Banks share as Mudarib	24,219	(25,334)
Return to investment account holders	**18,981**	18,264

The average gross rate of return in respect of unrestricted investment accounts was 4.39% for 2016 (2015: 4.74%). Approximately 1.93% (2015: 1.99%) was distributed to investors and the balance was either set aside for provisions and/or retained by the Group as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 7 thousand (2015: US$ 7 thousand) and investment risks reserve of US$ 3 thousand (2015: US$ 3 thousand).

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

16 SHARE CAPITAL

	31 December 2016	31 December 2015
Authorised:		
5,660,377,358 shares of US$ 0.265 each (2015: 5,660,377,358 shares of US$ 0.265 each)	**1,500,000**	1,500,000
Issued and fully paid up:		
2,256,583,403 shares of US$ 0.265 each (2015: 2,256,583,403 shares of US$ 0.265 each)	**597,995**	597,995

The movement in the share capital during the year is as follows:

	2016	2015
At 1 January	597,995	1,253,626
Conversion of murabaha to share capital	-	241,361
Capital reduction	-	(896,992)
At 31 December	**597,995**	597,995

At 31 December 2016, the Bank held 2,211,891 (31 December 2015: 24,503,697) treasury shares.

Additional information on shareholding pattern

(i) The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

(ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	**Number of shares**	**Number of shareholders**	**% of total outstanding shares**
Less than 1%	1,324,537,256	6,988	58.70
1% up to less than 5%	459,380,975	10	20.36
5% to less than 10%	170,674,221	1	7.56
10% to less than 20%	301,990,951	1	13.38
Total	**2,256,583,403**	**7,000**	**100**

* Expressed as a percentage of total outstanding shares of the Bank.

(iii) As at 31 December 2016, the shareholders who hold more than 5% of the total outstanding shares are as below:

Shareholder name	**Number of shares**	**% of total outstanding shares**
Integrated Capital PJSC	301,990,951	13.38
Mohammed Ahmed Saeed Al-Qassmi	170,674,221	7.56

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

17 SHARE GRANT RESERVE

	2016	2015
At 1 January	893	1,129
Vesting expense, net of forfeiture (note 21)	9	(236)
At 31 December	**902**	893

18 INCOME FROM INVESTMENT SECURITIES

	2016	2015
Dividend income	1,728	1,601
Gain on disposal of investment securities	1,417	3,592
Fair value changes of investments carried at fair value through income statement	(7,220)	(2,135)
Income from sukuk	7,963	9,767
	3,888	12,825

19 INCOME FROM SETTLEMENT OF LITIGATIONS

Until recently, the Group was a plaintiff and defendant in a number of court cases in connection with previous investment transactions and dealings. During the year, the Group's Board of Directors agreed a full and final out of court settlement with the various counterparties involved. Due to contractual restrictions on disclosures, the Board of Directors is unable to disclose any further information.

The settlement has resulted in the Group receiving assets in the form of real estate properties, unquoted equity securities, investment in associates and operating businesses (subsidiaries). The details are set out below:

	% of interests	**Value of assets acquired** (USD 000's)
Development properties		118,000
Investment properties		207,707
Liabilities associated with acquisition of investment properties		(15,000)
Unquoted equity securities		8,800
Investment in associates (in Bahrain)		27,900
Global Banking Corporation BSC (c)	20%	
Ensha Development Company	33.33%	
Investment in subsidiaries (in Bahrain) * (note 1)		117,160
AlAreen Leisure & Tourism Company, The Lost Paradise of Dilmun SPC (LPOD)	100%	
AlAreen Hotels SPC (Hotels)	100%	
AlAreen Project companies	100%	
British School of Bahrain (BSB)	100%	
Total		**464,567**

* Investment in subsidiaries were acquired through acquisition of various intermediate holding vehicles. The names disclosed refer to the underlying operating entities.

19 INCOME FROM SETTLEMENT OF LITIGATIONS (continued)

The total fair value of real estate properties, unquoted investment securities, investment in equity-accounted investees and businesses acquired were recognised in the consolidated income statement under “Income from settlement of litigations”. The fair values were determined by independent external professional firms using a combination of market and income approaches, as appropriate for each asset.

Acquisition of businesses/ subsidiaries
Acquiring control of the businesses/ subsidiaries referred to above resulted in a business combination and accordingly the entities were consolidated with the Group from 1 October 2016, being the effective accounting date of obtaining control.

Consideration
As there was no consideration transferred by the Group in the business combination, the Group has considered the fair value of assets received as consideration for the purpose of acquisition-date fair value of the interests acquired in the above entities.

Provisional assessment of identifiable assets acquired and liabilities assumed
The fair value of assets and liabilities have been reported on a provisional basis as permitted by IFRS 3 ‘Business Combinations’ for the purpose of recognition of the business combination. If new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting may be revised. Revisions to provisional acquisition accounting are required to be done on a retrospective basis.

	US$ 000’s
Cash and cash equivalents	2,284
Property, plant and equipment	145,875
Development properties	5,289
Acquisition related intangibles *	54,891
Other assets	3,876
Total assets	**212,215**
Liabilities	
Deferred revenue	32,151
Bank borrowings	14,642
Trade and other payable	47,328
Employees' end of service benefits	934
Total liabilities	**95,055**
Total net assets acquired (equivalent of fair value of assets received)	**117,160**

* Excess of fair value of consideration over the fair values of net identifiable tangible assets and liabilities have been provisionally allocated to acquisition related intangible assets. The Group is in the process of attributing values to identifiable intangible assets as permitted by IFRS 3. and any excess consideration shall be allocated as goodwill.

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

20 OTHER INCOME

Other income for the year primarily comprises recoveries on previously impaired accounts US$ 5.9 million and revenue from operations of non- banking subsidiaries of US$ 11.83 million (2015: Nil).

For the previous year, reversal of liability of US$ 2.6 million, recoveries on previous impairment of US$ 2.02 million and profit from buy back of debt of US$ 330 thousand.

21 STAFF COST

	2016	2015
Salaries and benefits	53,799	28,049
Social insurance expenses	2,665	2,415
	56,464	30,464

As per the Group's Variable Incentive Policy, a portion of the annual performance bonus is issued in the form of share awards to its senior management employees. These awards include deferred incentives in the form of shares, share purchase plans and long-term incentive plans with different conditions. The terms of the award, including the type of plan, extent of funding, pricing and deferral period is determined for each year by the Board Nomination, Remuneration and Governance Committee of the Bank.

Performance year	**Nature of award**	**Staff coverage**	**Summary of deferral and vesting conditions**
Legacy share plan	Share Options	Select Senior Management	Initial lock-in period of 3 years and option exercise period over 10 years ending 2018 at an exercise price of USD 0.65 / share.
2013 Award	Deferred Annual Bonus	Select Senior Management	A portion of the annual incentive was awarded in the form of shares. In 2015, on introduction of the new share plan, the old plan was converted to a deferred cash settled incentive over a 3 years period from year of award.
2014 Award	Employee Share Purchase Plan	Covered persons in business and control functions who exceed total compensation thresholds as per CBB Remuneration Regulations and Bank's Variable Remuneration policy	Shares are released rateably over the 3 year deferral period. The issue price is determined based on a defined adjustment to market price on the date of the award. No future performance conditions or service conditions. Shares are entitled for dividends, if any, but released over the deferral period.
2015 Award	Employee Share Purchase Plan		
2016 Award	Employee Share Purchase Plan		Allocation not approved until the date of the financial statements

Performance periods	**2016**		2015	
	No. of Shares	**USD 000's**	No. of Shares	USD 000's
Legacy Option Scheme	**2,290,000**	**902**	2,290,000	893
2013 Award				
Opening balance	-	-	2,352,632	447
Change to deferred cash settled plan	-	-	(2,352,632)	(447)
Closing balance	-	-	-	-

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

21 STAFF COST (continued)

Share incentive scheme	**2016**		2015	
	No. of Shares	**USD 000's**	No. of Shares	USD 000's
2014 Award				
Opening balance	36,953,895	1,567	-	-
Awarded during the period	-	-	36,953,895	1,567
Forfeiture and other adjustments	-	880	-	-
Transfer to employees/ settlement	(25,128,650)	(1,657)	-	-
Closing balance	**11,825,245**	**780**	36,953,895	1,567
2015 Award				
Opening balance	-	-	-	-
Awarded during the period	15,315,395	2,020	-	-
Forfeiture and other adjustments	-	-	-	-
Transfer to employees/ settlement	-	-	-	-
Closing balance	**15,315,395**	**2,020**	-	-

In case of the employee share purchase plans, the amounts reported in the table represents the vesting charge or benefit which is charged to the income statement and not the gross value of issued shares.

22 OTHER OPERATING EXPENSES

	2016	2015
Rent	5,415	4,787
Professional and consultancy fee	4,529	4,926
Legal expenses	15,388	1,108
Depreciation	3,784	2,235
Other operating expenses	22,712	12,120
	51,828	25,176

23 IMPAIRMENT ALLOWANCES

	2016	2015
Financing assets (note 5)	38,300	2,737
Investment securities		
- Equity securities (note 6(b))	61,041	8,840
- Debt type securities	867	191
Equity accounted investees (note 9)	36,464	-
Financing to projects (note 11)	26,500	4,500
Other receivables (note 11)	45,714	-
Investment property (note 7)	11,600	-
Lease rental receivable	626	748
	221,112	17,016

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

24 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group.

A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, 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 transactions with these entities are based on agreed terms.

The significant related party balances and transactions (excluding compensation to key management personnel of the Bank) included in these consolidated financial statements are as follows:

2016	Associates / Joint venture	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Financing assets	-	-	-	13,523	13,523
Equity-accounted investees	79,010	-	-	-	79,010
Investment securities	-	-	6,058	205,623	211,681
Other assets	6,889	6,568	588	25,082	39,127
Liabilities					
Investors' funds	162	-	-	10,689	10,851
Customer current account	26	-	233	5,047	5,306
Financing liabilities	-	-	35,271	-	35,271
Other liabilities	-	4,255	20,000	12,695	36,950
Equity of investment account holders	1,183	397	-	2,432	4,012
Income					
Investment banking income	-	-	-	3,321	3,321
Management fees	-	-	6,000	1,807	7,807
Share of profit of equity-accounted investees	846	-	-	-	846
Income from investment securities, net	(2,050)	-	186	338	(1,526)
Expenses					
Return to investment account holders	31	5	411	21	468
Staff cost*	-	7,905	-	-	7,905
Other operating expenses	-	1,048	11	233	1,292
Impairment allowances	36,464	-	-	60,604	97,068

* The amounts presented excludes bonus to key management personnel for 2016, as allocation has not been finalised at the date of approval of these consolidated financial statements.

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

24 RELATED PARTY TRANSACTIONS (continued)

2015	Associates	Key management personnel	Entities in which Directors are interested	Assets under management (including special purpose entities and other entities)	Total
Assets					
Financing assets	886	-	-	26,112	26,998
Equity-accounted investees	81,274	-	-	-	81,274
Investment securities	20,154	-	33,058	217,791	271,003
Other assets	21,484	-	-	73,604	95,088
Liabilities					
Investors' funds	-	-	-	5,291	5,291
Customer current account	589	-	26,448	20,690	47,727
Other liabilities	-	-	-	35,000	35,000
Equity of investment account holders	292	-	-	22,305	22,597
Income					
Investment banking income	-	-	-	23,822	23,822
Management fees	175	-	-	650	825
Share of profit of equity-accounted investees	3,025	-	-	-	3,025
Income from investment securities, net	(2,135)	-	-	-	(2,135)
Other income	-	-	-	3,147	3,147
Expenses					
Return to investment account holders	5	-	1,379	347	1,731
Staff cost	-	10,548	-	-	10,548
Other operating expenses	-	898	-	292	1,190
Impairment allowances	4,500	-	-	-	4,500

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

Board of Directors do not hold any interests in the Bank's ordinary shares as at 31 December 2016 (2015: Nil). Senior management holding of shares are disclosed in note 21.

During the year, there were no participation of directors in investments promoted by the Group.

The key management personnel compensation is as follows:

	2016	2015
Board member fees and allowance	1,048	898
Salaries, other short-term benefits and expenses	7,739	9,488
Post-employment benefits	166	1,060

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

25 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 2,166,805 thousand (31 December 2015: US$ 2,137,037 thousand). During the year, the Group had charged management fees amounting to US$ 1,807 thousand (2015: US$ 825 thousand) to its assets under management.

26 EARNINGS PER SHARE

Basic earnings per share
Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year.

The weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the year without corresponding change in resources.

Diluted earnings per share
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share.

	2016	2015
In thousands of shares		
Weighted average number of ordinary shares	2,263,094	2,215,119

In case of the legacy share options granted to employees prior to 2014, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2016. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share except for those already discussed above.

27 ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank’s Shari’a Supervisory Board and notified to shareholders annually. The zakah payable by shareholders for 31 December 2015 is US$ 0.00169/share and the current year calculations for zakah are yet to approved by the Group’s Shari’a Supervisory Board and will be provided for in the Bank’s website

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

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

28 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising 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. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds. The Group receives interest from deposits placed with the Central Bank of Bahrain and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 95 thousand (2015: US$ 166 thousand).

29 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of four 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.

30 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their expected realisation/ payment and the Group's liabilities on the basis of contractual maturity. However, the contractual maturity and amount of cash flows on these instruments may vary from this analysis. For undiscounted contractual maturity of financial liabilities, refer note 35.

31 December 2016	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	156,380	-	-	-	-	68	156,448
Placements with financial institutions	208,790	5,108	-	-	-	-	213,898
Financing assets	72,167	46,077	108,180	216,188	518,878	-	961,490
Investment securities	-	-	-	291,340	235,863	-	527,203
Asset acquired for leasing	393	19	34	3,592	242,219	-	246,257
Investment property	-	-	-	455,807	32,629	-	488,436
Development properties	-	-	-	202,374	78,598	-	280,972
Equity-accounted-investees	-	-	-	69,387	9,623	-	79,010
Property, plant and equipment	-	-	-	-	-	169,153	169,153
Intangibles and goodwill	-	-	-	54,891	-	-	54,891
Other assets	9,162	11,738	51,763	52,980	-	-	125,643
Total assets	**446,892**	**62,942**	**159,977**	**1,346,559**	**1,117,810**	**169,221**	**3,303,401**
Financial liabilities							
Investors' funds	4,928	-	10,012	29,625	-	-	44,565
Placements from financial institutions, other entities and individuals	168,087	37,125	209,354	151,394	4,555	-	570,515
Customer current account	117,932	28,833	17,103	10,019	18,896	-	192,783
Financing liabilities	1,200	-	44,010	123,782	-	-	168,992
Other liabilities	32,704	2,866	23,878	91,743	31,458	-	182,649
Total liabilities	**324,851**	**68,824**	**304,357**	**406,563**	**54,909**	**-**	**1,159,504**
Equity of investment account holders	389,628	112,446	141,623	76,812	301,681	-	**1,022,190**
Off-balance sheet items							
Commitments	84,138	45,793	68,530	87,528	4,363	-	**290,352**
Restricted investment accounts	-	17,408	-	12,321	-	-	**29,729**

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

30 MATURITY PROFILE (continued)

31 December 2015	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	No stated maturity	Total
Assets							
Cash and bank balances	122,165	-	-	-	-	-	122,165
Placements with financial institutions	121,924	-	424	-	-	-	122,348
Financing assets	122,039	44,928	106,919	206,549	378,986	-	859,421
Investment securities	168,523	-	8,688	235,341	160,901	-	573,453
Asset acquired for leasing	1,414	-	-	1,252	177,204	-	179,870
Investment property	-	-	-	207,346	50,586	-	257,932
Development properties				161,137	18,440	-	179,577
Equity-accounted-investees	2,472	-	-	78,802	-	-	81,274
Property, plant and equipment	-	-	-	-	-	25,602	25,602
Other assets	35,144	3,503	40,945	113,270	55,298	-	248,160
Total assets	573,681	48,431	156,976	1,003,697	841,415	25,602	2,649,802
Financial liabilities							
Investors' funds	27,728	-	-	-	-	-	27,728
Placements from financial institutions, other entities and individuals	120,077	26,241	60,042	129,504	4,226	-	340,090
Customer current account	88,786	29,247	13,462	7,885	14,672	-	154,052
Financing liabilities	4,120	4,716	39,293	105,490	-	-	153,619
Other liabilities	52,239	18,761	17,276	47,701	-	-	135,977
Total liabilities	292,950	78,965	130,073	290,580	18,898	-	811,466
Equity of investment account holders	361,080	93,562	126,721	70,337	293,215		944,915
Off-balance sheet items							
Commitments	50,756	58,989	132,915	16,178	2,956	-	261,794
Restricted investment accounts	22,546	-	2,794	32,475	-	-	57,815

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

31 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDER

(a) Industry sector

31 December 2016	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	-	151,965	1,138	-	3,345	156,448
Placements with financial institutions	-	208,790	12	-	5,096	213,898
Financing assets	-	11,460	248,483	-	701,547	961,490
Investment securities	-	96,464	419,378	-	11,361	527,203
Assets acquired for leasing	-	40,178	196,347	-	9,732	246,257
Investment properties	-	-	488,436	-	-	488,436
Development properties	-	-	280,972	-	-	280,972
Equity-accounted investees	43,496	30,611	4,903	-	-	79,010
Property, plant and equipment	-	-	17,878	-	151,275	169,153
Intangible assets	-	-	-	-	54,891	54,891
Other assets	2,640	3,210	74,403	-	45,390	125,643
Total assets	**46,136**	**542,678**	**1,731,950**	**-**	**982,637**	**3,303,401**
Liabilities						
Investors' funds	162	3,606	11,171	-	29,626	44,565
Placements from financial institutions, other entities and individuals	-	156,728	-	-	413,787	570,515
Customer current accounts	-	552	31,430	-	160,801	192,783
Financing liabilities	-	81,722	38,425	-	48,845	168,992
Other liabilities	-	577	69,491	-	112,581	182,649
Total liabilities	**162**	**243,185**	**150,517**	**-**	**765,640**	**1,159,504**
Equity of Investment account holders	-	54,105	56,886	-	911,199	**1,022,190**
Off-Balance sheet items						
Commitments	-	12,613	118,133	-	159,606	**290,352**
Restricted investment accounts	-	-	29,729	-	-	**29,729**

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

31 Concentration of assets, liabilities and equity of investment account holders (continued)
(a) Industry sector (continued)

31 December 2015	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	-	122,162	-	-	3	122,165
Placements with financial institutions	-	122,348	-	-	-	122,348
Financing assets	-	71,628	249,221	-	538,572	859,421
Investment securities	-	72,243	292,449	2,050	206,711	573,453
Assets acquired for leasing	-	-	177,199	-	2,671	179,870
Investment properties	-	-	257,932	-	-	257,932
Development properties	-	-	179,577	-	-	179,577
Equity-accounted investees	78,802	-	2,472	-	-	81,274
Property, plant and equipment	-	-	-	-	25,602	25,602
Other assets	682	17,646	166,526	-	63,306	248,160
Total assets	79,484	406,027	1,325,376	2,050	836,865	2,649,802
Liabilities						
Investors' funds	162	15	23,636	-	3,915	27,728
Placements from financial institutions, other entities and individuals	-	126,163	1,809	-	212,118	340,090
Customer current accounts	-	13,916	37,334	-	102,802	154,052
Financing liabilities	-	143,800	9,819	-	-	153,619
Other liabilities	-	1,096	84,821	-	50,060	135,977
Total liabilities	162	284,990	157,419	-	368,895	811,466
Equity of Investment account holders	-	4,161	69,207	-	871,547	944,915
Off-Balance sheet items						
Commitments	-	1,612	102,550	-	157,632	261,794
Restricted investment accounts	-	-	57,815	-	-	57,815

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

31 Concentration of assets, liabilities and equity of investment account holders (continued)

(b) Geographic region

31 December 2016	GCC countries	MENA	Asia	UK	Europe (excluding UK)	Others	Total
Assets							
Cash and bank balances	132,117	55	19	240	7,615	16,402	156,448
Placements with financial institutions	213,886	12	-	-	-	-	213,898
Financing assets	893,198	-	-	17,894	50,398	-	961,490
Investment securities	393,820	30,130	101,403	-	-	1,850	527,203
Assets acquired for leasing	178,916	-	57,612	-	-	9,729	246,257
Investment properties	411,436	77,000	-	-	-	-	488,436
Development properties	100,297	180,675	-	-	-	-	280,972
Equity-accounted investees	79,010	-	-	-	-	-	79,010
Property, plant and equipment	167,216	1,937	-	-	-	-	169,153
Intangible asset	54,891	-	-	-	-	-	54,891
Other assets	106,635	-	4,277	-	31	14,700	125,643
Total assets	2,73,1422	289,809	163,311	18,134	58,044	42,681	**3,303,401**
Liabilities							
Investors' funds	34,076	476	-	-	-	10,013	44,565
Placements from financial institutions, other entities and individuals	484,314	86,201	-	-	-	-	570,515
Customer current accounts	188,037	-	-	-	4,489	257	192,783
Financing liabilities	147,163	21,829	-	-	-	-	168,992
Other liabilities	159,140	16,602	-	-	6,907	-	182,649
Total liabilities	**1,012,730**	**125,108**	**-**	**-**	**11,396**	**10,270**	**1,159,504**
Equity of investment account holders	1,013,883	-	6,997	-	1,310	-	**1,022,190**
Off-Balance sheet items							
Commitments	290,215	-	-	-	137	-	**290,352**
Restricted investment accounts	29,729	-	-	-	-	-	**29,729**

Concentration by location for assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

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

31 Concentration of assets, liabilities and equity of investment account holders (continued)

(b) Geography sector (continued)

31 December 2015	GCC countries	MENA	Asia	UK	Europe (excluding UK)	Others	Total
Assets							
Cash and bank balances	95,528	3	101	320	4,239	21,974	122,165
Placements with financial institutions	122,348	-	-	-	-	-	122,348
Financing assets	807,146	-	-	-	52,275	-	859,421
Investment securities	370,687	30,570	134,113	18,104	10,249	9,730	573,453
Assets acquired for leasing	179,870	-	-	-	-	-	179,870
Investment properties	257,932	-	-	-	-	-	257,932
Development properties	115,460	64,117	-	-	-	-	179,577
Equity-accounted investees	81,274	-	-	-	-	-	81,274
Property, plant and equipment	25,602	-	-	-	-	-	25,602
Other assets	155,058	41,058	6,909	21,352	2,378	21,405	248,160
Total assets	2,210,905	135,748	141,123	39,776	69,141	53,109	2,649,802
Liabilities							
Investors' funds	27,211	517	-	-	-	-	27,728
Placements from financial institutions, other entities and individuals	254,290	85,800	-	-	-	-	340,090
Customer current accounts	153,127	-	-	-	925	-	154,052
Financing liabilities	107,970	9,819	-	35,830	-	-	153,619
Other liabilities	89,464	15,785	-	-	-	30,728	135,977
Total liabilities	632,062	111,921	-	35,830	925	30,728	811,466
Equity of investment account holders	912,441	-	31,159	-	1,294	21	944,915
Off-Balance sheet items							
Commitments	261,141	-	-	-	653	-	261,794
Restricted investment accounts	57,657	-	-	-	-	-	57,657

32 OPERATING SEGMENTS

The Group has four distinct operating segments, Real Estate Development, Asset Management, Private Equity and Commercial Banking, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The following summary describes the operations in each of the Group's operating reportable segments:

- **Real Estate Development:** This business unit primarily is involved in origination and management of large scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.

- **Investment Banking:** The Banking segment of the Group is focused on private equity and asset management domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The asset management unit is responsible for identifying and managing investments in yielding real estate in the target markets of the GCC. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.

- Com**mercial Banking:** These include commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities of the Group's commercial banking subsidiary.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level.

The Group has primary operations in Bahrain and the Group does not have any significant independent overseas branches/divisions in the banking business. The geographic concentration of assets and liabilities is disclosed in note 35 (b) to the consolidated financial statements.

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

32 OPERATING SEGMENTS (continued)

Information regarding the results of each reportable segment is included below:

	Real estate development	Investment banking	Commercial banking	Unallocated / Elimination	Total
31 December 2016					
Segment revenue	48,795	1,472	63,609	465,080	578,956
Segment expenses (including impairment allowances)	129,460	122,649	68,522	25,277	345,908
Segment result	(80,665)	(121,177)	(4,913)	439,803	233,048
Segment assets	914,893	376,768	2,012,401	(661)	3,303,401
Segment liabilities	243,569	194,997	644,145	76,793	1,159,504
Other segment information					
Finance expense	11,087	4,492	7,894	(36)	23,437
Impairment allowance	103,905	81,441	35,766	-	221,112
Equity accounted investees	-	79,010	-	-	79,010
Equity of investment account holders	-	-	1,021,038	1,152	1,022,190
Commitments	105,129	10,696	174,527	-	290,352

* Includes segment result of discontinued operations, net.

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

32 OPERATING SEGMENTS (continued)

	Real estate development	Investment banking	Commercial banking	Unallocated / Elimination	Total
31 December 2015					
Segment revenue	5,646	26,146	57,826	1,532	91,150
Segment expenses (including impairment allowances)	11,840	21,169	35,762	10,354	79,125
Segment result	(6,194)	4,977	22,064	(8,822)	12,025
Segment assets	674,757	232,890	1,728,379	13,776	2,649,802
Segment liabilities	227,823	104,968	453,943	24,732	811,466
Other segment information					
Finance expense	7,838	2,705	6,079	136	16,758
Impairment allowance	-	8,137	6,558	2,321	17,016
Equity accounted investees	-	78,802	2,472	-	81,274
Equity of investment account holders	-	-	943,247	1,668	944,915
Commitments	47,000	-	214,794	-	261,794

*Includes segment result of discontinued operations, net (refer note 25).

33 FINANCIAL INSTRUMENTS

a) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

As at 31 December 2016 and 31 December 2015, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quoted market prices and internal valuation models. Other investments are carried at cost in the absence of a reliable measure of fair value.

Other than certain investments carried at cost of US$ 287,180 thousand (31 December 2015: US$ 326,991 thousand) (note 6), the estimated fair values of the Group's other financial assets are not significantly different from their book values as at 31 December 2016.

Investments amounting to US$ 287,180 thousand (31 December 2015: US$ 326,991 thousand) in unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value. Such investments are either private equity investments managed by external investment managers or represent investments in development infrastructure projects promoted by the Group for which a reliable estimate of fair value cannot be determined. The Group intends to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

As at 31 December 2016, the fair value of financing liabilities was estimated at US$ 159,545 thousand (carrying value US$ 168,992 thousand) (31 December 2015: fair value US$ 133,400 thousand (carrying value US$ 153,619 thousand)). These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments which were re-priced recently as part of the debt restructuring process.

b) FAIR VALUE HIERARCHY

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

33 FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUE HIERARCHY (continued)

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities carried at fair value through:				
- income statement	377	-	40,180	40,557
- equity	103	-	1,973	2,076
	480	**-**	**42,153**	**42,633**

31 December 2015	Level 1	Level 2	Level 3	Total
Investment securities carried at fair value through:				
- income statement	377	-	60,347	60,724
- equity	15,242	-	1,973	17,215
	15,619	-	62,320	77,939

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2016	2015
At 1 January	62,320	64,455
Purchases	-	-
Total gains or losses in income statement	(2,050)	(2,135)
Disposals during the year	(18,117)	-
At 31 December	**42,153**	62,320

34 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

	31 December 2016	31 December 2015
Undrawn commitments to extend finance	174,527	161,788
Financial guarantees	85,129	68,006
Capital commitments for infrastructure development	20,000	32,000
Commitment to investment	10,696	-

34 COMMITMENTS AND CONTINGENCIES (continued)

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2016 due to the performance of any of its projects.

Litigations, claims and contingencies

Litigations and claims

The Group has a number of claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

35 FINANCIAL RISK MANAGEMENT

Overview

Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, financing liabilities and other payable balances. Accounting policies for financial assets and liabilities are set out in note 2.

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

- credit risk;
- liquidity risk;
- market risks; and
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The material subsidiaries consolidated in these financial statements have independent risk management frameworks which is monitored by the respective Board of Directors of the subsidiaries. Accordingly, such risk management policies, procedures and practices are not included in these consolidated financial statements.

35 FINANCIAL RISK MANAGEMENT (continued)

Risk management framework

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to the Board Audit and Risk Committee.

The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has delegated its authority to the Board Audit and Risk Committee (ARC), which is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Liquidity Risk Report measure the Group's liquidity risk profile against policy guidelines and regulatory benchmarks. An additional report is prepared by the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's, placements with financial institutions, financing assets and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of investment and credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's credit risk, including:

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

- Ongoing review of credit exposures. The risk assessment approach is used in determining where impairment provisions may be required against specific investment / credit exposures. The current risk assessment process classifies credit exposures into two broad categories “Unimpaired” and “Impaired”, reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

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

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Exposure to credit risk

31 December 2016	**Bank balances**	**Placement with financial institutions**	**Financing assets**	**Investment securities – debt type instruments**	**Assets acquired for leasing (including lease rent receivables)**	**Other financial assets**
Neither past due nor impaired - Carrying amount	138,177	213,898	836,353	194,806	214,663	77,771
Impaired						
Gross amount	-	-	175,570	4,594	7,408	470,122
Allowance for impairment	-	-	(121,132)	(2,010)	-	(454,419)
Impaired- Carrying amount	**-**	**-**	**54,438**	**2,584**	**7,408**	**15,703**
Past due but not impaired – carrying amount	**-**	**-**	**82,289**	**-**	**33,554**	**24,687**
Less : Collective impairment	**-**	**-**	**(11,590)**	**-**	**(2,544)**	**-**
Total – carrying amount	**138,177**	**213,898**	**961,490**	**197,390**	**253,081**	**118,161**

31 December 2015	Bank balances	Placement with financial institutions	Financing assets	Investment securities – debt type instruments	Assets acquired for leasing	Other financial assets
Neither past due nor impaired - Carrying amount	104,863	122,348	715,142	164,358	161,096	152,351
Impaired						
Gross amount	-	-	39,775	5,308	554	635,636
Allowance for impairment	-	-	(27,279)	(1,143)	(66)	(575,498)
Impaired- Carrying amount	-	-	12,496	4,165	488	60,138
Past due but not impaired – carrying amount	-	-	141,024	-	20,138	33,644
Less : Collective impairment	-	-	(9,241)	-	(1,852)	-
Total – carrying amount	104,863	122,348	859,421	168,523	179,870	246,133

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

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Impaired receivables

Impaired receivables are those for which the Group determines that it is probable that it will be unable to collect all or a portion of payments due according to the contractual terms of the receivables agreement(s). These exposures are graded “Impaired” in the Group’s assessment process.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its receivables. This allowance is a specific loss component that relates to individually significant exposures based on individual assessment for impairment.

The movement in the impairment allowances for investment securities is given in note 6. The movement in impairment allowance for other financial assets are as given below:

2016	**Financing receivables**	**Financing to projects**	**Receivable from investment banking services**	**Other receivables**	**Total**
At 1 January 2016	70,150	90,088	153,630	75,311	389,179
Impairment charge for the year	-	51,500	-	20,714	72,214
At 31 December 2016	**70,150**	**141,588**	**153,630**	**96,025**	**461,393**

2015	Financing receivables	Financing to projects	Receivable from investment banking services	Other receivables	Total
At 1 January 2015	70,150	85,588	153,630	75,311	384,679
Impairment charge for the year	-	4,500	-	-	4,500
At 31 December 2015	70,150	90,088	153,630	75,311	389,179

Receivables with renegotiated terms

During the year, the Group has renegotiated certain financing receivables and financing to projects due to changes in the financial position of the borrower. The financing receivables were renegotiated for terms and condition similar to original terms. Financing to projects represents working capital and other funding extended to projects managed and promoted by the Group. The financing is expected to be recovered from the operating cash flows of the underlying project assets.

Financing to projects of US$ 6.44 million (31 December 2015: US$ 56.8 million) were renegotiated for an extended period and do not have specified terms of repayment. The Group assesses the recoverability and timing of collection based on underlying stream of cash flows that will be generated by its projects.

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Write-off policy

The Group writes off a receivable (and any related allowances for impairment losses) when it is determined that the receivables are uncollectible and after obtaining approval from the CBB where required. This determination is reached after considering information such as the occurrence of significant changes in the payee / issuer's financial position such that the payee / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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 its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in notes 36 (a) and (b).

Collaterals

The Group holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed/ unlisted securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and updated periodically, generally at annual intervals. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

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

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

	As at 31 December 2016			As at 31 December 2015		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	20,780	7,387	28,167	9,390	504	9,894
Equities	8,546	-	8,546	-	-	-
Other				1,228	-	1,228
Against past due but not impaired						
Property	73,263	47,506	120,769	79,308	23,459	102,767
Equities	5,597	-	5,597	-	-	-
Other				12,483	-	12,483
Against neither past due nor impaired						
Property	268,103	205,316	473,419	197,194	161,952	359,146
Equities	1,056	-	1,056	790	-	790
Other	85,525	-	85,525	106,785	-	106,785
Total	**462,870**	**260,209**	**723,079**	407,178	185,915	593,093

The average collateral coverage ratio on secured facilities is 114.47% at 31 December 2016 (31 December 2015: 107.80%).

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

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

An analysis of concentrations of credit risk of the commercial banking business at the reporting date is shown below:

Concentration by Sector	As at 31 December 2016			As at 31 December 2015		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	32,780	-	**32,780**	73,496	-	73,496
Real estate:						
- Property	35,085	243,806	**278,891**	17,172	180,684	197,856
- Infrastructure Development	43,009	-	**43,009**	52,228	-	52,228
- Land	93,064	-	**93,064**	62,488	-	62,488
Construction	77,260	-	**77,260**	99,029	-	99,029
Trading	272,239	-	**272,239**	298,289	-	298,289
Manufacturing	104,480	-	**104,480**	35,666	-	35,666
Others	303,574	2,451	**306,025**	205,159	2,605	207,764
Total carrying amount	**961,491**	**246,257**	**1,207,748**	**843,527**	**183,289**	1,026,816

b) Liquidity risk

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

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank and is circulated to Executive Committee (ExComm). Moreover, quarterly reports are submitted to the Board of Directors on the liquidity position by RMD.

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

35 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 34 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows						
31 December 2015	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Investors' funds	4,928	-	10,012	29,625	-	**44,565**	44,565
Placements from financial institutions, other entities and institutions	250,473	64,802	183,638	82,696	4,661	**586,270**	570,515
Customer current accounts	117,932	28,833	17,103	10,019	18,897	**192,784**	192,783
Financing liabilities	3,788	7,903	33,396	99,612	33,909	**178,608**	168,992
Other liabilities	30,491	2,288	4,045	137,049	6,463	**180,336**	180,336
Total liabilities	407,612	103,826	248,194	359,001	63,930	**1,182,563**	1,157,191
Equity of investment account holders	397,932	114,564	144,291	78,259	307,365	**1,042,411**	1,022,190
Commitment and contingencies	84,138	45,793	68,530	87,527	4,363	**290,352**	290,352

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

	Gross undiscounted cash flows						
31 December 2015	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Financial liabilities							
Investors' funds	27,728	-	-	-	-	27,728	27,728
Placements from financial institutions, other entities and institutions	121,555	26,296	60,042	131,657	4,225	343,775	340,090
Customer current accounts	86,759	29,247	13,462	7,886	14,873	152,227	154,052
Financing liabilities	4,120	4,716	39,293	108,257	-	156,386	153,619
Other liabilities	52,239	18,761	17,276	47,701	-	135,977	135,977
Total liabilities	292,401	79,020	130,073	295,501	19,098	816,093	811,466
Equity of investment account holders	402,922	94,246	128,574	72,394	321,794	1,019,930	994,915
Commitments and contingencies	50,756	58,989	132,915	16,178	2,956	261,794	261,794

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

35 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

Measures of liquidity

The Group has recently introduced new measures of liquidity. These revised metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio and stock of liquid assets.

For this purpose, the liquidity coverage ratio identifies the amount of unencumbered, high quality liquid assets the Group holds that can be used to offset the net cash outflows it would encounter under an acute short-term stress scenario (30, 60 and 90 days time horizon). The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Liquidity coverage ratio	**2016**	2015
30 days	4.54	2.14
60 days	2.94	4.87
90 days	2.81	1.91

The Group also holds certain listed equities and treasury shares which can be sold to meet the liquidity requirements.

	2016	2015
Net stable funding ratio	0.89	1.02

Details of the ratio of liquid assets to total assets at the reporting date and during the year were as follows:

	Liquid asset / Total asset	
	2016	2015
At 31 December	17.19%	17.07%
Average for the year	12.32%	17.88%
Maximum for the year	17.19%	20.36%
Minimum for the year	9.44%	16.30%

c) Market risks

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Board Audit and Risk Committee. RMD is responsible for the development of detailed risk management policies (subject to review and approval of the Board Audit & Risk Committee of Directors).

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

35 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks (continued)

Exposure to profit rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates.

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

31 December 2016	**Up to 3 months**	**3 to 6 months**	**6 months- 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Placements with financial institutions	206,064	5,096	2,738	-	-	213,898
Financing assets	72,167	46,077	108,180	216,188	518,878	961,490
Investment securities (Sukuk)	-	-	3,976	3,897	189,517	197,390
Assets acquired for leasing (including lease rental receivable)	393	19	34	3,591	242,220	246,257
Total assets	**278,624**	**51,192**	**114,928**	**223,676**	**950,615**	**1,619,035**
Liabilities						
Investors' funds	1,336	-	10,012	29,625	-	40,973
Placements from financial and other institutions	160,511	40,963	183,699	182,941	2,401	570,515
Customer current account	5,119	-	-	-	-	5,119
Financing liabilities	1,200	-	44,011	123,781	-	168,992
Total liabilities	**168,166**	**40,963**	**237,722**	**336,347**	**2,401**	**785,599**
Equity of investment account holders	522,113	233,623	224,493	41,961	-	**1,022,190**
Profit rate sensitivity gap	**(411,655)**	**(223,394)**	**(347,28)**	**(154,632)**	**948,214**	**(188,754)**

31 December 2015	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial institutions	121,924	-	424	-	-	122,348
Financing assets	122,040	44,938	106,920	206,549	378,974	859,421
Investment securities (Sukuk)	168,523	-	-	-	-	168,523
Assets acquired for leasing (including lease rental receivable)	1,414	-	-	1,252	180,623	183,289
Total assets	413,901	44,938	107,344	207,801	559,597	1,333,581
Liabilities						
Investors' funds	5,291	-	-	-	-	5,291
Placements from financial and other institutions	120,077	26,241	60,042	129,503	4,227	340,090
Financing liabilities	4,120	4,716	39,293	105,490	-	153,619
Customer current account	20,737	-	-	-	-	20,737
Total liabilities	150,225	30,957	99,335	234,993	4,227	519,737
Equity of investment account holders	361,080	93,562	126,721	70,337	293,215	944,915
Profit rate sensitivity gap	(97,404)	(79,581)	(118,712)	(97,529)	262,155	(131,071)

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

35 FINANCIAL RISK MANAGEMENT (continued)
c) Market risks (continued)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

100 bps parallel increase / (decrease)	**2016**	2015
At 31 December	±1,888	±1,495
Average for the year	±2,160	±3,145
Maximum for the year	±2,773	±4,173
Minimum for the year	±953	±1,495

Overall, profit rate risk positions are managed by Treasury, which uses placements from / with financial institutions to manage the overall position arising from the Group's activities.

The effective average profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

	2016	2015
Placements with financial institutions	3.99%	1.22%
Financing assets	9.02%	5.72%
Debt type investments	4.91%	4.55%
Placements from financial institutions, other entities and individuals	6.78%	3.61%
Financing liabilities	7.17%	6.95%
Equity of investment account holders	2.10%	1.93%

Exposure to foreign exchange risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

	2016 US$ '000 Equivalent	2015 US$ '000 Equivalent
Sterling Pounds	20,680	37,370
Euro	9,710	13,644
Australian dollars	12,223	12,222
Kuwaiti dinar	19,822	22,634
Jordanian Dinar	3	2,131
India rupee	19	100
Other GCC Currencies (*)	27,918	115,537

(*) These currencies are pegged to the US Dollar.

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

35 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks (continued)

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2016 US$ '000 Equivalent	2015 US$'000 Equivalent
Sterling Pounds	±1,034	±1,869
Euros	±485	±682
Australian dollar	±611	±611
Kuwaiti dinar	±991	±1,131
Jordanian Dinar	±0.15	±106
Indian rupee	±0.95	±5

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. A 5% change in the underlying value of the managed funds would have an impact on the income statement and equity by US$ 99 thousand (2015: US$ 99 thousand). The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 3 (ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department facilitates the management of Operational Risk by way of assisting in the identification of, monitoring and managing of operational risk in the Group.

36 CAPITAL MANAGEMENT

The Group's regulator 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. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or 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. The Group does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

36 CAPITAL MANAGEMENT (continued)

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank 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 and the IFSB guidelines.

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

- Tier 1 capital: includes CET1 and AT1.
  CET1 comprise of 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 Bank 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 CBB requirements, 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 Bank has made regulatory adjustments of US$ 340 thousand (2015: 4,053 thousand) in line with the CBB requirements.

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

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

36 CAPITAL MANAGEMENT (continued)

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

	2016	2015
Total risk weighted exposures	**4,454,973**	3,398,337
Tier 1 capital :		
- CET 1 capital prior to regulatory adjustments	1,036,475	830,600
- Less: regulatory adjustments	(340)	(4,053)
CET 1 after regulatory adjustments	**1,036,135**	826,547
AT1	4,979	2,472
Tier 2 capital	17,909	14,405
Total regulatory capital	**1,059,023**	843,424
Total regulatory capital expressed as a percentage of total risk weighted assets	**23.77%**	24.68%

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors. The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

37 SUBSEQUENT EVENTS

Subsequent to the year end, the Board of Directors approved a plan to acquire financial institutions and real estate infrastructure investments through issuance of new shares of the Bank upto 3.4 billion subject to regulatory and shareholders approvals. If the plan materialize, this will have a significant impact on Group's consolidated financial statements going forward.

38 APPROPRIATIONS

The Board of Directors proposes the following appropriations subject to shareholders approval in annual general meeting.

- Remuneration of US$ 2.5 million to the Board of Directors;
- Dividend of 20% of the paid-up share capital amounting to US$ 120 million in the form of cash (10%) and bonus shares (10%);
- Appropriation of US$ 2 million towards charity for the year; and
- Appropriation of US$ 1.5 million towards zakah for the year.

39 COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit for the year or owners' equity.