الإثمار القابضة
Ithmaar Holding
Formerly Ithmaar Bank B.S.C.

New Beginnings

2016 ANNUAL REPORT

Contents

At a Glance

Ithmaar Holding B.S.C. (Ithmaar Holding or Ithmaar) is a Bahrain-based holding company that is licensed and regulated by the Central Bank of Bahrain (CBB) as an investment company and is listed on the Bahrain Bourse and Boursa Kuwait.

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

The plans received all necessary approvals and their implementation was completed on 2 January 2017. Ithmaar Holding continues to be listed on the Bahrain Bourse and Boursa Kuwait.

Ithmaar Holding is a subsidiary of Dar Al-Maal Al-Islami Trust ("DMIT"), and has a paid-up capital of US$757.69 million.

This 2016 Annual Report focuses on the achievements and financial performance of Ithmaar Bank B.S.C., prior to its transformation into Ithmaar Holding B.S.C.

Vision, Mission and Values

Our Vision

An ethical, innovative financial institution focused on creating and developing value and actively contributing to social development.

Our Mission

To invest in a portfolio of sustainable investments to enhance shareholder value and encourage future growth while efficiently realising market opportunities.

Our Values

- Comply with Islamic Sharia principles;
- Honesty, integrity and objectivity in all our relationships;
- Continuous improvement, willingness to bring about changes and improve efficiency; and
- Active role in the community.

Financial Highlights

	2016	2015	2014	2013	2012
Net profit/(loss) [US$ 000]	**13,798**	(46,395)	(8,847)	(79,327)	(26,828)
Net profit/(loss) attributable to shareholders [US$ 000]	**3,279**	(60,797)	(15,012)	(80,372)	(30,480)
Net income before provision for impairment and overseas taxation [US$ 000]	**70,045**	77,958	28,962	4,805	33,939
Total equity attributable to shareholders [US$ 000]	**427,415**	414,223	523,386	531,568	589,114
Book value per share [US cents]	**15**	14	18	19	22
Earnings per share [US cents]	**0.11**	(2.09)	(0.52)	(2.76)	(11.35)
Total assets [US$ 000]	**8,341,310**	8,138,641	7,860,904	7,403,135	7,225,737
Funds under management [restricted and unrestricted investment accounts] [US$ 000]	**3,059,753**	2,758,030	2,381,660	2,464,780	2,613,483
Return on average shareholders' equity	**0.78%**	-12.97%	-2.85%	-14.34%	-5.23%
Return on average assets	**0.17%**	-0.58%	-0.12%	-1.08%	-0.38%
Return on average paid in capital	**0.45%**	-8.36%	-2.06%	-11.49%	-4.54%
Cost to operating income ratio	**73.28%**	70.95%	87.28%	97.60%	85.38%
Capital adequacy ratio	**13.02%**	12.81%	12.11%	12.77%	12.64%
Market price per share on 31 December [US cents]	**12.5**	14.5	16	23	17
Market price per share/Book value per share on 31 December	**0.85**	1.02	0.89	1.21	0.77

Joint Message

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

We are pleased to announce that the strategic decisions taken by shareholders in 2014, which aim to turn the Ithmaar Group around by significantly transforming its operations, continue to deliver positive results, and that the plans we proposed early in 2016 for a new group structure were fully implemented, following all necessary shareholder and regulatory approvals, with the start of 2017.

The new group structure, an important next step in the transformation of the Group, involved converting Ithmaar Bank B.S.C (Ithmaar Bank) into Ithmaar Holding B.S.C. (Ithmaar Holding), which is licensed and regulated by the Central Bank of Bahrain (CBB) and is listed on the Bahrain Bourse and Boursa Kuwait. Following the conversion, Ithmaar Holding retains 100 percent ownership of all assets formerly owned by Ithmaar Bank through two wholly-owned subsidiaries, Ithmaar Bank B.S.C. (c), an Islamic retail bank subsidiary which holds the core retail banking business, and IB Capital B.S.C. (c) (IB Capital), an investment subsidiary, which holds investments and other non-core assets. The two subsidiaries are licensed and regulated by the CBB. Ithmaar Holding is traded under the ticker ITHMR.

This new structure will assist in realising our long-term strategy for growth by providing greater insight into the strength of our core retail banking operations and further facilitating the focused management of the Group's investment and non-core assets. It will also help highlight the performance of core business and assist in the planned divestment of investment and non-core assets. The new structure will further focus efforts, allowing us to take advantage of new growth opportunities and help generate greater value to shareholders. This, in turn, will build upon the already significant improvements that were achievement following the prompt implementation of the strategic decisions taken in 2014.

The full implementation of the new structure on 2 January 2017 concluded a year of remarkable transformation at Ithmaar, details of which are outlined in the Review of Operations section of this Annual Report. The Report, which documents a clear and well-demonstrated focus on developing core retail banking operations, highlights key achievements of 2016.

We are pleased to report that this unwavering focus has delivered encouraging results on many, many fronts. In particular, we are pleased to report that Ithmaar announced a net profit of US$13.80 million for 2016, compared to a US$46.40 million net loss reported for 2015. The net profit attributable to equity holders for the year ended 31 December 2016 was US$3.28 million, compared to a US$60.80 million loss reported for 2015.

HRH Prince Amr Mohammed Al Faisal, Chairman

Ahmed Abdul Rahim, Chief Executive Officer

"The new structure will assist in realising our long-term strategy for growth by providing greater insight into the strength of our core retail banking operations and further facilitating the focused management of the Group's investment and non-core assets."

We are pleased, also, to report that Ithmaar's financial results continue to show stable growth in our core retail banking business. This is perhaps most clearly reflected in the growth in net income, before overseas taxation, which amounted to US$36.74 million for 2016, a 315 percent increase and a complete turnaround from the US$17.07 million net loss, before overseas taxation, reported for 2015. Total assets also increased to US$8.34 billion as at 31 December 2016, an increase of 2.4 percent from US$8.14 billion as at 31 December 2015.

This is, in a large part, a result of continuously improving Ithmaar's products and services while also keeping costs and expenses under control. Total expenses for 2016, for example, amounted to US$192.10 million, a marginal increase from the total expenses of US$190.41 million reported for 2015, despite the continuous expansion of Ithmaar's retail banking operations both in Bahrain and in Pakistan.

The balance sheet continues to be stable, and our customer deposits continue to grow as is evident from the equity of unrestricted investment account holders growing to US$2.77 billion as at 31 December 2016, a 15.5 percent increase compared to US$2.40 billion as at 31 December 2015. This increase reflects customer confidence in Ithmaar, and is further evidence that efforts to grow continuously closer to customers are paying off. Current accounts and due to investors, for example, grew to US$3.48 billion as at 31 December 2016, a 9 percent increase compared to US$3.19 billion as at 31 December 2015. Financing Murabaha and Ijarah also increased to US$3.93 billion as at 31 December 2016, a 5.7 percent increase from US$3.72 billion as at 31 December 2015.

This growth is a direct consequence of Ithmaar's continuous efforts to improve its products and services, enhance its customer service offerings and expand its network. It did not, however, distract Ithmaar from its commitment to its social responsibilities and, in 2016, it continued to making real and meaningful contributions to the community in which it operates. This, along with its clear commitment to transparency, has not gone unnoticed and, in 2016, the World Islamic Banking Conference singled Ithmaar out from among the world's Islamic banks and presented it with a prestigious international award in recognition of its Corporate Social Responsibility and Financial Disclosure.

Ithmaar's performance in 2016 is, indeed, powerful testimony to the efforts invested on developing the core retail banking business, and we are confident that, following the completion of the reorganisation and the formal commencement of the new group structure, we will further develop this growth.

This growth was driven by the dedication, commitment and expertise of the people at Ithmaar, who we have long recognised to be by far our greatest asset. We take this opportunity, as always, to thank each one of them for their truly valuable contributions. We take this opportunity, also, to thank our shareholders for their continued support, as well as our customers, investors and all other stakeholders for their confidence.

In particular, we thank the CBB and the Ministry of Industry, Commerce and Tourism, as well as the Bahrain Bourse and Boursa Kuwait for their continued guidance and support during the transition into the new group structure. We thank, also, the members of the Board of Directors and the Sharia Supervisory Board for their continued support to realising our shared vision for the group.

Amr Mohammed Al Faisal
Chairman

Ahmed Abdul Rahim
Chief Executive Officer

Review of Operations

Review of Operations

Strategy and Focus

Ithmaar's strategy continues its single focus: return to sustainable profitability. The strategies to achieve Ithmaar's key objectives include a firm focus on core business, together with improving asset allocation including divestment of investment and non-core assets, cost rationalisation and improving efficiency levels.

Reorganised, restructured, refocused

The new group structure, which aims to further develop the growth achieved in the core retail banking business, will further consolidate Ithmaar's position as a strong, retail-focused Islamic bank, allowing it to take advantage of new growth opportunities and help generate greater value to shareholders.

This 2016 Annual Report focuses on the achievements and financial performance of Ithmaar Bank B.S.C., prior to its transformation into Ithmaar Holding B.S.C.

Economic outlook

Global growth, projected to be 3.4 percent in 2017, reflects a more subdued outlook for advanced economies following the June U.K. vote in favour of leaving the European Union and weaker-than-expected growth in the United States.

The US presidential election in November was followed by a Fed rate increase and seems to have pushed up rate expectations due to increased optimism about US growth prospects. Meanwhile, an agreement by OPEC and leading non-OPEC producers to cut output has triggered a marginal rally in oil prices.

With a slowdown in China and persistently weak economic performances in other large developing and transition economies, developed economies are expected to contribute more to global growth in the near term, provided they manage to mitigate deflationary risks and stimulate investment and aggregate demand.

Bahrain

Bahrain's economic growth is likely to remain low with an expected average annual real GDP growth of around 2 percent in 2016-2020.

Lower oil prices will continue to dampen the drive for investment projects across the region, reducing the level of demand in Bahrain's services-oriented economy.

The government's ongoing reduction in spending will have knock-on effects on both private consumption and investment. Furthermore, the financial services sector, which makes up around 16 percent of real GDP and is the second-largest sector after hydrocarbons, will continue to be inhibited by regional competition (notably from Qatar and the UAE), and also by the oil-induced, region-wide liquidity crunch.

In February 2017, Bahrain announced the signing of the unified agreement for Value Added Tax (VAT) and Selective Tax in the Gulf Cooperation Council (GCC) countries. The agreement will come into effect after going through the legislative and constitutional processes by the concerned legislative authorities. Bahrain also said it will establish an independent tax authority to administer VAT for implementation by mid-2018.

Pakistan

Real GDP is expected to grow by an average annual rate of 4.5 percent between 2016 and 2021. The economic expansion will be constrained by the volatile security environment, as well as water and electricity shortages. Structural growth impediments, such as low investment in human capital, will also play a major preventive role.

Consumer price inflation is expected to rise to an average of 4.9 percent in 2017, from 3.8 percent in 2016. Consumer prices will then average 5.3 percent a year in 2018-2021 as the currency weakens and drives up the cost of imports.

(Sources: International Monetary Fund – World Economic Outlook October 2016; World Economic Situation and Prospects 2016- United Nations; The Economist Intelligence Unit "EIU").

Firm focus on core business

At the start of 2016, Ithmaar re-launched its Thimaar savings account, offering customers 4,000 prizes – one of the highest by any bank in Bahrain – to further differentiate one of its key products in an increasingly competitive market. In March, a special loyalty draw was held giving long-time customers who have held Thimaar savings for more than a year but have not yet won a prize, an extra chance to win.

Throughout the year, Ithmaar maintained this pace, improving existing products and services, introducing new ones, expanding its retail banking network and enhancing its customer service offerings. This included the introduction of a unique Win & Fly offer that gave Ithmaar's credit card holders the chance to win US$30,000 in travel packages.

In March, Ithmaar inaugurated a new Automated Teller Machine (ATM) at Al Rawdha fuel station in Hamad Town; in April another ATM in Hamad Town, near the Kanoo Mosque; and in June a full-service branch in Galali. The new facilities, all commissioned in direct response to growing demand, underscore Ithmaar's commitment to listening carefully, and responding quickly, to customer needs. Together, they bring the total number of full-service branches in Ithmaar's retail banking network, already one of the largest in Bahrain, to 18 and the total number of ATMs to 48. Later in the year, Ithmaar also moved its Salmabad branch to a new, more accessible location with significantly larger premises and better parking facilities.

In July, Ithmaar signed an agreement with Eskan Bank to offer Bahrain citizens government-subsidised financing to help them buy their first homes in a new development in Seef district. The agreement, part of a national scheme designed to address the Kingdom's housing challenges, provides government subsidised financing through Ithmaar for the Danaat Al Seef development, a 10 building, four-storey, 164 apartment housing project. In October, Ithmaar signed another agreement with Eskan Bank offering similar financing for the Danat Al Riffa development, a three building, six-storey, 84 apartment housing project. Ithmaar also continues to be a key participant in the Mazaya Social Housing Financing Scheme which it joined in 2014. Mazaya, which provides government subsidised financing for Bahrain nationals to buy their first homes, is widely considered to be among the most important financing solutions provided by the Government of Bahrain to address national housing requirements.

In December, Ithmaar announced EasyPay, the Kingdom's first ever mobile payment service, and signed an agreement with Batelco, Bahrain's leading telecom provider, and Arab Financial Services (AFS), one of the region's leading electronic payments outsourcing service providers, to launch the new service. The service uses secure Near Field Communication (NFC) tags to eliminate the need for cash or cards by allowing customers to shop simply by tapping their mobile phones at the checkout counters of participating merchants. The formal launch, which was held in January 2017, marked a key milestone for the Bahrain retail market, potentially revolutionising customer shopping experiences with secure, real-time payments now made possible directly from mobile phones.

In 2016, Ithmaar also conducted various process-reengineering exercises to improve efficiency at the branches as well as enhance customer experiences at all possible touch points.

As a result of Ithmaar's consistent efforts in Bahrain to enhance its products, expand its network and introduce new services, retail banking customer current accounts, savings accounts, Thimaar and URIA deposits, increased by 10.9 percent in 2016, from US$1.72 billion at the end of 2015 to US$1.91 billion. Ithmaar's financing business also increased by 7.2 percent, from US$1.18 billion at the end of 2015 to US$1.27 billion. The growth was driven mainly by home financing, which increased by 51 percent in 2016.

Ithmaar's Markets Served (Bahrain)

Financings – FYE 2016

Territory	
Bahrain	92%
GCC	2%
Others	6%
Total	**100%**

Sector	
Personal	74%
Financial Institutions	3%
Real estate and construction	10%
Trade and manufacturing	6%
Services	7%
	100%

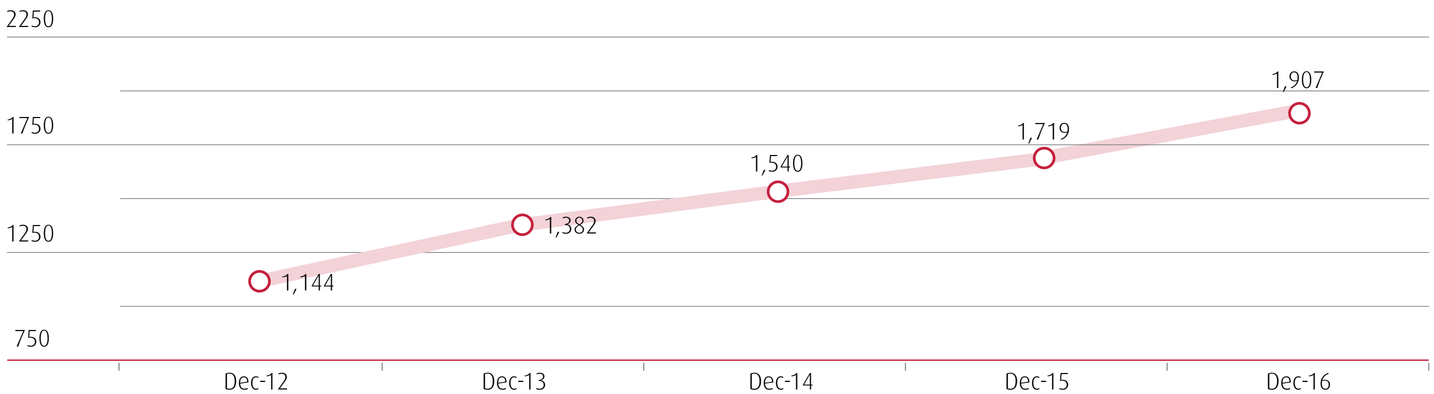
Customer Funds – FYE 2016

Territory	
Bahrain	92%
GCC	1%
Others	7%
Total	**100%**

Sector	
Personal	61%
Financial Institutions	2%
Real estate and construction	8%
Trade and manufacturing	10%
Services	8%
Government related	11%
	100%

Ithmaar's Retail Banking – Customer Funds (Bahrain)

Customer Funds (US$ million)



Ithmaar Bank Customer Financing (US$ million)

	Home finance	Personal finance	Corporate & SME finance
Dec-12	44	533	617
Dec-13	51	659	577
Dec-14	78	798	552
Dec-15	185	956	490
Dec-16	280	948	474

Private Banking kept its focus in 2016 on maintaining a steady growth in liabilities by continuously expanding relationships with new High Net Worth Individuals (HNWI) segments.

In 2016, Ithmaar, as the Manager of Dilmunia Development Fund, sold a number of plots of land in Dilmunia Island, including in the sea-front development, "Jenina at Dilmunia".

Commercial and Financial Institutions continued in 2016 to focus on Small and Medium Enterprises (SME), as well as on developing the Bank's Corporate Banking and International Banking business.

As part of these efforts, Ithmaar signed an agreement with Tamkeen, a Bahrain semi-government organisation which works to make the private sector the key driver of sustainable economic development, to support both the Tamweel and the Tamweel+ schemes.

Tamweel+, as well as Tamweel, which was previously called the SME Finance scheme, offer government-subsidised financing to help develop Bahrain's private sector. Tamweel provides financing solutions to start-ups and smaller enterprises, while Tamweel+ provides financing solutions to large and medium sized enterprises looking to expand or diversify, locally or internationally. Ithmaar's participation in both programmes helps grow local business as well as attract foreign direct investment into Bahrain.

Persistent efforts resulted in significant recoveries of overdue amounts from customers. Customer acceptance and risk profiling criteria were further strengthened. Commercial and Financial Institutions also focused on expanding local and international relationships, as well as growing access to money market and trade finance related transactions.

Improving Asset Allocation

The main objective of Asset Management in 2016 continued to be to preserve the value of the existing investment portfolio and identify opportunities for investment exits at acceptable valuations. The planned and managed exit from certain non-revenue generating investments will help restore the asset allocation to be in line with peers and facilitate the additional deployment of funds in financing, thereby contributing to the net margins. During 2016, Asset Management continued to effectively manage and monitor Ithmaar's investments, including subsidiaries and associates. Asset Management also managed Ithmaar's Funds Under Management in Bahrain, the United States of America and Europe, as Modareb for the fund's investors.

Investing on our people

In 2016, Ithmaar continued to invest heavily in its greatest asset, its employees. This included a large number of in-house as well as external training programmes that covered a wide range of subjects, including Sign Language training for select employees across branches to help serve customers with special needs.

In-house training programmes conducted in 2016 included AAOIFI Standards Awareness sessions conducted by the Sharia Compliance Department and attended by 74 employees from various departments; Business Objects training session conducted by the Information Technology Department and attended by Risk Management, Banking Operations, Private Banking, Retail Banking and Product Development employees; and a Leadership and Management Masterclass for business managers.

Ithmaar also conducted Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) training, which it conducts on an annual basis, to ensure that senior management completely understand and fully appreciate both the nature and the significance of AML in the global financial industry and importance of CFT. Ithmaar also hosted Business Continuity Plan (BCP) and Information Security awareness sessions for all new joiners on a quarterly basis throughout 2016 – a total of eight sessions were conducted and 83 employees attended – as well a total of 12 Annual Information Security awareness sessions which were attended, in total, by 198 employees from various departments.

In November 2016, Ithmaar introduced its path breaking Career Progression Plan, a new initiative designed to groom future leaders by developing employees who demonstrate exceptional potential. The initiative is based on a two-year programme that includes professional qualifications, training programmes, projects and special assignments designed to provide participants with exposure to advanced leadership and management skills.Three mentors, selected from among the next generation of senior executives in the Ithmaar management team, will share their experiences with, as well as provide support to, participants during the programme.

Training (Bahrain)

BIBF Levy Training	Total: 1,795 Hours Managers and Above: 185 Hours Below Managers: 1,610 Hours
External Training - Bahrain	Total: 1,253 Hours Managers and Above: 716 Hours Below Managers: 537 Hours
External Training - Abroad	Total: 48 Hours Managers and Above: 32 Hours Below Managers: 16 Hours
Islamic Banking Ethics and Governance Course – CBB Requirement	4 Employees successfully complete the course
Financial Advice Programme (FAP) Level 1	5 Employees successfully complete the course
Anti-Money Laundering (AML) – CBB Requirement	New Joiners: 13 Employees Annual Refresher Course: total 233 employees attended as follows: 215 Employees through E-Learning System Management Session: 18 employees

Staff Overview (Bahrain)

	Bahrainis			Non Bahrainis			
	Assistant Manager and Above	Associate and Senior Officer	Officer and Below	Assistant Manager and Above	Associate and Senior Officer	Officer and Below	Total
Male	63	47	66	11	0	0	187
Female	17	36	38	1	0	0	92
Total	80	83	104	12	0	0	279

Celebrating employee excellence

In 2016, Ithmaar honoured employees who had recently earned advanced academic and professional certifications. A total of sixteen employees from various departments, including Sharia Compliance, Retail Banking, Compliance and Anti Money Laundering, Product Management and Development, Marketing and Corporate Communications, Information Technology, Commercial and Financial Institutions, Internal Audit and Human Resources, were honoured for having earned various degrees.

Ithmaar also honoured 19 long-serving employees who had completed twenty-five, fifteen and ten years at the Annual Staff Gathering.

Role in the community

As a pioneer in Islamic banking, Ithmaar has long-recognised the important role it must play in the community and, in 2016, it continued to support deserving local charities as well as participate in various community activities.

In 2016, Ithmaar provided financial support to the University of Bahrain, the National Institute for Disabled, the Children and Mothers Welfare Society, the Gulf Disability Society, the Bahrain Sports Federation for Disabilities, the Bahrain Football Association, the Busaiteen Sports and Cultural Club, the Future Society of Youth, the Dream Society, Beit Al Quran, the Nouf bint Hamad Mosque and the Bahrain Meditation Centre for Self-Development. For the ninth year in a row, Ithmaar also sponsored the King Hamad Trophy Golf Championship. Ithmaar also sponsored key national events, including the Invest in Bahrain 2016 Forum and Exhibition and the 2016 Bahrain International Property Exhibition, and participated in the World Islamic Banking Conference (WIBC) as well as other key industry events hosted by the Bahrain Association of Banks (BAB) and the Accounting and Auditing Organisation for Islamic Financial Intuitions (AAOIFI).

Ithmaar continued in 2016 to support the education of underprivileged students and, together with the Kingdom of Bahrain's Royal Charity Organisation, sponsors 18 orphaned students from preschool through to Grade 12 at an accredited private school in Bahrain, as well as one Bachelor degree student at an accredited university in Bahrain.

Ithmaar also continued its commitment to nurture Bahraini undergraduates into future banking professionals and, in 2016, provided internship and training opportunities for a total of 52 university undergraduate students from various universities. This included a two month-long Summer Internship Programme which offers trainees first-hand insight into Ithmaar's organisational structure, as well as the key functional areas in an Islamic retail bank. The popular, long-standing programme outlines how to deal with daily challenges in real work-life situations.

In 2016, six employees volunteered their time to deliver InJaz programmes, and Ithmaar also arranged two sessions for InJaz students to help prepare them to select their future careers.

To mark the 2016 Bahrain Women's Day, Ithmaar hosted a special session entitled "Empowering women, taking the lead" for its female employees as well as guests from the CBB, Tamkeen, the Bahrain Institute of Banking and Finance and InJaz. The event, which was attended by 79 female Ithmaar employees, aimed at celebrating their contributions both to Ithmaar and to their families. Ithmaar also continued its tradition of marking the Bahrain Women's Day on 1 December by honouring its female employees and presenting each with a gift.

Improved support for customers with special needs

In 2016, Ithmaar introduced additional new services at its Main Branch for customers with special needs. These included adapting the ATM to offer voice-guided sessions for cash withdrawals, balance enquiries and Personal Identification (PIN) changes. The ATM height was also lowered to provide easier access from a wheel chair. Ithmaar also assigned a dedicated, clearly-marked desk to serve customers with special needs on a priority basis; created new Braille forms for visually impaired customers; and adapted existing procedures to further improve their Islamic banking experience.

The new services introduced are in addition to the support that was already being provided to customers with special needs. Clearly-marked parking facilities for customers with special needs have, for example, long been available at the Main Branch, which was designed to be wheelchair accessible. Ithmaar employees with special training have also always sought to provide immediate service to customers with special needs, such as visual and hearing.

Award winning achievements

In December, Ithmaar was singled out from among the world’s Islamic banks for a prestigious international award in recognition of its Corporate Social Responsibility and Financial Disclosure. The independent award was presented at the World Islamic Banking Conference (WIBC) that was held in Bahrain. The high-profile event, which was attended by leading international banking experts, is widely recognised as one of the most important events on the world Islamic banking calendar. Ithmaar earned the Award by topping the WIBC Leaderboard in terms of Corporate Social Responsibility and Financial Disclosure compared to Islamic banks across the world. According to WIBC officials, the Award is “testament to Ithmaar’s commitment to transparency and impact”.

Earlier, in February, Ithmaar became the first bank in Bahrain to have its account on Twitter, the popular micro-blogging site, formally verified. This put the account – ithmaarbankBH – on par with some of most reliable and most credible accounts in the region and opened up a new engagement channel for customers.

In 2016, Ithmaar employees won first place at the Nations Category in the Bahrain SWS Endurance Championship and, although it was the first time it participated in the Annual Banking and Financial Institutions Futsal Tournament hosted by Al Najma Club, the team qualified for the semi-finals. Ithmaar employees also won second place in the “Project Convention Team Building Game” hosted by the Bahrain Institute of Banking and Finance.

Financial Review

Financial Performance

Ithmaar has reported net profit attributable to equity holders of US$3.3 million, compared to a net loss US$60.80 million reported for 2015.

The core retail banking business continues to show stable growth. This is most clearly reflected in Ithmaar's net income, before overseas taxation, which amounted to US$36.7 million for the year ended 31 December 2016, a 315 percent increase and a complete turnaround from the US$17.07 million net loss, before overseas taxation, reported for 2015. This is, in a large part, a result of continuously improving Ithmaar's products and services while also keeping costs and expenses under control. Total expenses for the year ended 31 December 2016, for example, amounted to US$192.10 million, a marginal increase from the total expenses of US$190.41 million reported for 2015. This is despite the continuous expansion of Ithmaar's retail banking operations both in Bahrain and in Pakistan, where 75 new branches were opened in 2016.

Financial Position

The core business areas of financing, customer deposits, and unrestricted investment account holders have achieved good growth, resulting in increasing total assets to US$8.3 billion as at 31 December 2016, an increase of 2.5 percent from US$8.1 billion as at 31 December 2015.

Customer liabilities also continued to grow which is evident from the equity of unrestricted investment account holders growing to US$2.77 billion as at 31 December 2016, a 15.5 percent increase compared to US$2.40 billion as at 31 December 2015. Current accounts and due to investors grew to US$3.48 billion as at 31 December 2016, a 9.3 percent increase compared to US$3.19 billion as at 31 December 2015.

Total Financing (Murabaha, Musharaka and Ijarah) also increased to US$3.93 billion as at 31 December 2016, a 5.7 percent increase from US$3.72 billion as at 31 December 2015.

The shareholders' equity increased to US$427.4 million as at 31 December 2016, a 3.2 percent increase from US$414.2 million as at 31 December 2015.

Subsidiaries and Associates

Board of Directors

Sharia Supervisory Board

Executive Management

Subsidiaries and Associates

Key operating subsidiaries

Faysal Bank Limited (FBL)

Faysal Bank Limited was incorporated in Pakistan on October 3, 1994. Its shares are listed on the Karachi, Lahore and Islamabad Stock Exchanges. FBL is mainly engaged in Corporate, Commercial and Consumer banking activities. During 2014, the decision was taken to convert FBL's remaining conventional operations to Islamic banking. FBL has a network of 354 branches including 146 Islamic banking branches as of 31 December 2016. The Group owns 66.57 percent of FBL.

The current strategy of FBL focuses on growth in deposits (including improvement in low cost deposits portfolio) and reduction on operating costs in order to achieve higher profitability. The total assets and total shareholders' equity as of 31 December 2016 amounted to PKR 440 billion and PKR 30.7 billion respectively.

Ithmaar Development Company (IDC)

Ithmaar Development Company (IDC) is a wholly-owned subsidiary of the Group which was established in 2007 with the objective of developing and managing major development, real estate and other infrastructure projects. IDC's flagship projects include Dilmunia, a 1.25 million square meters manmade island off the coast of Bahrain.

The current strategy of IDC focuses on the infrastructure development relating to Dilmunia project as well as providing development management services to Naseej relating to the Private Public Partnership Housing Project (PPPHP) project.

Key operating associates

BBK B.S.C. (BBK)

BBK is one of the largest commercial banks in Bahrain with a presence in Kuwait, India and Dubai (United Arab Emirates). BBK provides a full range of lending, deposit, treasury and investment services, and has established a number of subsidiaries in the areas of brokerage, financial services and credit cards. The Group owns 25.4 percent of BBK. BBK has 18 branches, including seven financial malls, and 53 ATMs in Bahrain

BBK's strategy focuses on growth of its retail banking business through branch expansion in GCC and international markets, mainly India. The total assets and total shareholders' equity as of 31 December 2016 amounted to US$9.7 billion and US$1.2 billion respectively.

Naseej B.S.C. (c) (Naseej)

Naseej (the Company) is the MENA region's first fully-integrated real estate and infrastructure development company, encompassing the entire value chain from concept to completion. The Company's core activities comprise design and master planning; development and construction; building components; mortgage facilitation; and asset management. Naseej was established by prominent private and public sector investors to act as a pioneering catalyst for addressing the region's affordable housing development needs. The Group owns 30.7 percent of Naseej.

Naseej's strategy focuses on pursuing property development and investment opportunities in affordable housing and retail real estate sectors in the MENA region besides working on the Private Public Partnership Housing Project (PPPHP) project in Bahrain.

Solidarity Group Holdings B.S.C. (c)

Solidarity is one of the largest takaful (Islamic insurance) companies. The Company provides general and family takaful products and services, which comply with the principles of the Islamic Sharia, around the globe. Solidarity operates two fully-owned subsidiaries in Bahrain, one subsidiary in Jordan, and other business interests in Saudi Arabia. The Group owns 36.4 percent of Solidarity.

Solidarity's strategy focuses on providing general takaful services both locally and in key international markets, mainly Jordan and Saudi Arabia. The total assets and total shareholders' equity as of 31 December 2016 amounted to US$315 million and US$186 million respectively.

CITIC International Asset Management Limited (CITICIAM)

CITICIAM is part of the CITIC Group, a major diversified financial and investment conglomerate wholly-owned by the State Council of the People's Republic of China. CITICIAM's principal activity is to invest in companies and projects in China and internationally, both for its own account and on behalf of clients. Established in 2002 to specialise in distressed asset management, the current portfolio of CIAM includes direct investments in real estate, high technology, health, retail and industrial projects. The Group owns 20 percent of CITICIAM. CITICIAM's strategy focuses on investment mainly in China in environmental, agricultural, natural resources and health sector of China specifically in companies, mainly SME's, which are run in line with the state policies and contribute to the socio-economic development of China.

Board of Directors

HRH Prince Amr Mohammed Al Faisal

Chairman

Elected 28 March 2016

HRH Prince Amr has more than 28 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering.

He is a Member of the Board of Supervisors of Dar Al Maal Al Islami Trust (DMI Trust), Faisal Islamic Bank (Sudan) and Faisal Islamic Bank (Egypt). HRH Prince Amr is also Founder and Director of the Red Sea Design Consultants (Jeddah), Chairman of the Board of Directors of Al Daleel Company for Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan), Al Wadi Company for Trading Ltd. (Jeddah) and Amr Establishment for Marketing and Commerce.

He is a Fellow of the Saudi Association for Construction Societies, City Development and Clean Environment and a Member of the Saudi Council of Engineers. HRH Prince Amr holds a Bachelor of Arts Degree in Architecture from King Abdulaziz University, Saudi Arabia.

Sheikh Zamil Abdullah Al-Zamil

Independent, Non-Executive Board Member

Elected 28 March 2016.

Sheikh Al-Zamil is a prominent businessman in the Kingdom of Saudi Arabia and in GCC countries, and has more than 36 years of experience in managing business activities in various sectors.

He is Executive Vice-President of Zamil Group Holdings Company and serves as the Chairman of Zamil Offshore Services Co. and Zamil Operations and Maintenance Co. Ltd.

Sheikh Al-Zamil is actively involved in various institutions such as the Chambers of Commerce, industrial companies and banks in his capacity as a Director.

Educated in the United States, he has BS degree in Petroleum Engineering from the University of Southern California (USC) and an MS degree in the same major from West Virginia University, USA.

Tunku Yaacob Khyra

Independent, Non-Executive Board Member

Elected 28 March 2016.

Prince Yaacob has more than 33 years of banking and finance experience.

He is Chairman of MAA Group Berhad (Malaysia), which he joined in 1999. Prior to his current position, Prince Yaacob worked for 19 years at Malaysian Assurance Alliance Berhad, where his last position was Chairman. He also worked at PriceWaterhouse, UK and Malaysia.

Prince Yaacob holds a Bachelor of Science Degree with Honours from the City University in London and is a Fellow of the Institute of Chartered Accountants of England and Wales.

Shaikha Hissah bint Saad Al-Sabah

Independent, Non-Executive Board Member

Elected 28 March 2016.

Shaikha Hissah has more than 18 years of banking experience.

She is President of the Council of Arab Businesswomen, and has a long history in the Kuwait Government and private voluntary service in sectors which include medical services, research and development, defence, and narcotics and addiction control. Shaikha Hissah is also the President of the Council of Arab African Business Women.

Shaikha Hissah studied Public Administration and Political Science at the American University of Beirut, Lebanon, and holds a Doctorate in Humane Letters.

Abdelhamid Mohamed Aboumousa

Executive Board Member

Elected 28 March 2016.

Mr. Aboumousa has more than 47 years of banking experience. He is Governor of Faisal Islamic Bank of Egypt, which he joined in 1979. Prior to joining Faisal Islamic Bank of Egypt, Mr. Aboumousa worked in the Central Bank of Egypt for 16 years. He is a Member of the General Assembly of Misr Holding Company for Insurance - Egypt, and is also Head of the Egyptian–Saudi Business Council.

He holds a Bachelor of Science Degree in Accounting and a Diploma in Finance from Cairo University in Egypt, and a Higher Diploma in Economics from Lwegi Boconi University in Milano, Italy.

Khalid Abdulla-Janahi

Executive Board Member

Appointed 28 March 2016.

Mr. Janahi has more than 30 years of experience in the banking sector both in Bahrain and abroad. He is Group Chief Executive of Dar Al-Maal Al-Islami Trust, Chairman of DMI Administrative Services, Chairman of Naseej B.S.C. (c), Chairman of Ithmaar Development Company Limited, Chairman of Solidarity Group Holding B.S.C. (c) , and Chairman of Solidarity Saudi Takaful Company. He is also a Board Member of Faisal Islamic Bank of Egypt, a Member of the Centre for International Business and Management (CIBAM) at the University of Cambridge and a Member of Dean's Council, University of Chicago Harris School of Public Policy.

He holds a Bachelor of Science degree in Computer Science and Accountancy from the University of Manchester, UK and is a fellow of the institute of Chartered Accountants in England and Wales.

Mohammed A. Rahman Bucheeri

Non-Executive Board Member

Appointed 28 March 2016.

Mr. Bucheerei has more than 46 years of experience in Accounting, Commercial and Offshore Banking.

He was Chief Executive Officer of Ithmaar Bank from 12 July, 2010 to 31 August, 2013, and has been a Member of the Ithmaar Bank Board of Directors since March 2010. He is also a Member of the Bank's Executive Committee.

Previously, Mr. Bucheerei served as the General Manager of the Private Offices of HRH Prince Mohamed Al Faisal Al Saud, Saudi Arabia, and Executive Vice-President, Shamil Bank of Bahrain.

He currently serves on the Boards of Islamic Investment Company of the Gulf (Bahamas and Sharjah) Limited, Faysal Bahamas Limited, Crescent International Limited (Bermuda), DMI (Jersey) Limited, MFAI (Jersey) Limited, Gulf Investors Asset Management Company (Saudi Arabia), Cantara S.A. (Switzerland) and Overland Capital Group, USA.

He studied accounting, mathematics and economics at Gulf Polytechnic, Bahrain.

Nabeel Khaled Mohamed Kanoo

Independent, Non-Executive Board Member

Elected 28 March 2016.

Mr. Kanoo has more than 18 years of business and management experience.

He is Director of Public Relations and Marketing of YBA Kanoo as a group, a Director of YBA Kanoo's Saudi Arabia Board, a Director of YBA Kanoo's Bahrain Board, a Director of Kanoo Travel Co. UK and France, and a Director of Kanoo and El-Shabrawy Ltd. Co. Egypt.

Mr. Kanoo holds a Bachelor of Business Management Degree from St. Edwards University, Austin, Texas.

Abdulellah Ebrahim Al-Qassimi

Independent, Non-Executive Board Member

Elected 28 March 2016.

Mr. Al-Qassimi has more than 33 years of diversified management experience.

His previous positions include Chief Executive of Tamkeen (the Labour Fund), from which he resigned in May 2010; Deputy Chief Executive Officer of the Labour Fund Project at the Bahrain Economic Development Board; Assistant Undersecretary for Training at the Bahrain Ministry of Labour and Social Affairs; and Director of Engineering and Maintenance at the Bahrain Ministry of Health. He has also served as the Chairman of the Bahrain Qualifications Framework Steering Committee; and the Steering Committee of Career Expo; and was a Board member of the Bahrain Society of Engineers and the Bahrain Consumer Protection Society.

He is currently a Member of the Board of Solidarity Group Holding B.S.C. (c); Naseej B.S.C. (c); Faysal Bank Limited (Pakistan); Saudi Solidarity Takaful Co. (KSA) and Al Ahlia Insurance Co., as well as a member of the Board of Trustees of Arabian Pearl Gulf School.

Mr. Al-Qassimi holds a BSc in Civil Engineering from Queen Mary College, University of London, UK; a MSc in Health Facility Planning from the University of North London, UK, and a Diploma in Health Care Management from the Royal College of Surgeons in Ireland, Bahrain.

Omar Abdi Ali

Non-Executive Board Member

Elected 28 March 2016.

Mr. Ali has more than 48 years of experience in financial and general management in development as well as commercial and investment banking in Africa, the Middle East and Europe. He is Founder and Chairman of the Board of Directors of Quadron Investments Co. Ltd. (Sudan) and Integrated Property Investments (United Kingdom and Tanzania).

Previously, Mr. Ali served at Dar Al Maal Al Islami Trust (DMI – Trust) where he was Chief Executive Officer and Chief Operating Officer from 1986 to 1999 and, before that, Executive Vice-President Finance and Vice-President in charge of Internal Audit from 1983 to 1986. Prior to his DMI appointments, Mr. Ali was Director of Finance and Chief Financial Officer at the Arab Authority for Agricultural Investment and Development (Sudan).

He is currently a member of the Board of directors of Faisal Islamic Bank of Egypt and serves as chairman of the Audit and Risk Committees of the Board. He has served in the African Development Bank for ten years and his last post there was CFO of the Bank. He has also served in the Arab Fund for Economic and Social Development and the Arab Authority for Agriculture and Investment where he was also the CFO. He has served these two institutions for seven years.

Mr. Ali is a Certified Accountant, Leeds College of Commerce, UK, and a Fellow of the Association of Chartered Certified Accountants.

Dr. Amani Khaled Bouresli

Independent, Non-Executive Board Member

Elected 28 March 2016.

Dr. Bouresli, formerly the Kuwait Minister of Commerce and Planning and Development and, before that, Minister of Commerce and Industry, has almost 30 years of experience in training, consulting and banking.

She is currently Professor of Finance at the Kuwait University's College of Business Administration, and her research interests include Capital Markets Regulations, Corporate Governance and Strategic Planning. Dr. Bouresli is also a Member at the Board of Trustees at Kuwait Transparency Association for the Anti-Corruption Award for the Public Sector in Kuwait. She earned the Middle East Excellence Award in business administration and economics for her contributions toward the development of the capital market structure and regulation in Kuwait. She is the founder of the Governance Excellency Prize.

Prior to her ministerial appointments, Dr. Bouresli was Chairman and Founder of Capital Standards Rating Co., the first independent credit rating agency in Kuwait, from 2009 to 2011; a Board Member at Burgan Bank, Kuwait, from 2010 to 2011; and Head of the Capital Market Authority Project from 2006 to 2007.

Dr. Bouresli, who has many published work in refereed journals as well as in specialised books and magazines, began her banking career at the National Bank of Kuwait in 1987, and her teaching career at Kuwait University in 1988.

Dr. Bouresli holds a BC in Finance and Banking from Kuwait University, Kuwait; an MBA from Seattle University, USA; and a PhD in Finance from Southern Illinois University at Carbondale, USA.

Abdulshakoor Hussain Tahlak

Independent, Non-executive Board Member

Elected 28 March 2016.

Mr. Tahlak has more than 36 years of experience in the United Arab Emirates public and private sectors.

He is currently a private consultant to the UAE Minister of State for International Cooperation, and ambassador for Expo 2020 after he resigned as Senior Executive Vice President at Emirates NBD following the Emirates NBD 2007 merger between the National Bank of Dubai (NBD) and Emirates Bank International (EBI). He is currently a board member of the World Union of Arab Bankers in Beirut.

Mr. Tahlak has held various management and banking positions including Chairman of NBD Islamic Finance "Al Watani Al Islami", Chairman of Abu Dhabi Investment House, Board member of Industrial Bank in Emirates, Board member of Emirates NBD Securities, Board member of Emirates NBD Investment, and Board member of UAE Banks Federation.

He built and developed strong relationships between banks and across official and government entities, and contributed to developing expertise within the UAE banking industry. He also played a major role in developing banking and financial system in the UAE and was a member of various committees at the Central Bank as well as several councils at universities and colleges that worked to address local market requirements, and develop the UAE banking system.

Prior to his banking career, Mr. Tahlak served in the UAE Ministry of Foreign Affairs as Head of the International Organization Desk, Diplomatic Department. During his diplomatic career, he joined several official delegations and attended international sessions and meetings. He also participated in several regional and international conferences, and was delegated for short periods to work with the United Nations.

Sharia Supervisory Board

Sheikh Abdullah Sulaiman Al Manee'a

Chairman

Appointed 2016

Sheikh Al Manee'a is a prominent, highly-respected Sharia scholar. He is a member of the Senior Sharia Board in the Kingdom of Saudi Arabia and a consultant in the Royal Court. He is the Vice Chairman of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). He is also Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions.

An expert at the Islamic Fiqh Academy, Sheikh Al Manee'a holds a Master's degree from the Higher Institute for Judgment and has authored several books including 'Paper Money: Truth, History and Reality' and 'Economic Research' and others.

Sheikh Dr. Nedham Yaqouby

Member

Appointed 2016

Sheikh Dr. Yaqouby is a prominent, highly-respected Islamic Sharia scholar and a successful businessman from the Kingdom of Bahrain. He is a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and is also a member of the Sharia Supervisory Boards of several banks, Islamic financial institutions, investment funds and international banks in the GCC region, Arab countries and around the world.

In 2007, the King of Bahrain, His Majesty King Hamad bin Isa Al Khalifa, awarded Sheikh Dr. Yaqouby the Order Merit in recognition of his services in Bahrain and abroad. Sheikh Dr. Yaqouby has also received the Euromoney award for Innovation in Sharia Supervision, as well as the Malaysian Islamic Banking award and other awards.

Sheikh Dr. Yaqouby holds many academic, appreciation and honorary degrees. He has authored a large number of books.

Sheikh Mohsin Al-Asfoor

Member

Appointed 2016

Sheikh Al Asfoor is a well-known and highly-respected Sharia scholar in the Kingdom of Bahrain. In addition to his membership of the Ithmaar Bank Sharia Supervisory Board, he is a member in several Sharia Supervisory Boards in the Kingdom of Bahrain and abroad. He has previously been a judge at the Supreme Sharia Court of Appeal (Jaafari).

Sheikh Al-Asfoor is the Head of the Jaafari Endowments and is a member of the Curriculum Development at the Jaafari Religious Institute as well as the Sharia Board of the International Islamic Rating Agency of the Islamic Development Bank. He is a graduate of Islamic Hawza from Qom, Iran and has authored more than 60 books on Islamic Sharia.

Sheikh Dr. Osama Mohammed Saad Bahar

Member

Appointed 2016

Sheikh Dr. Bahar is a well-known, highly-respected Sharia scholar from the Kingdom of Bahrain.

He is currently a Sharia member at First Energy Bank. He is also the Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions, funds and investment portfolios in Bahrain and abroad.

Sheikh Dr. Bahar holds a Doctorate from Lahaye University in the Netherlands, a Master's degree from Al Emam Al Awzae University in Lebanon, and a Bachelor's degree in Islamic Sharia from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria.

Sheikh Dr. Bahar has authored several books in Islamic banking as well as society affairs. He also has several radio interviews and participations and newspaper columns.

Executive Management

Ahmed Abdul Rahim
Chief Executive Officer

Qualifications and experience:

- Master of Business Administration, University of Glamorgan, Wales (UK) (1999).
- Associate, the Institute of Financial Accountants, UK (1995).
- 40 years of retail banking experience.
- Joined the Group in 2006.

Ravindra Anant Khot
Chief Operating Officer

Qualifications and experience:

- Bachelor of Commerce, (Financial Accounting) University of Mumbai, India (1983).
- Fellow Chartered Accountant (FCA), the Institute of Chartered Accountants of India (1996).
- 31 years of banking and finance experience.
- Joined Ithmaar in 2007.

Abdulhakeem Khalil Al Mutawa
General Manager, Banking Group

Qualifications and experience:

- Master of Business Administration, University of Bahrain (1991).
- Bachelor of Science in Mechanical Engineering, The University of Texas at Austin, USA (1981).
- 35 years of experience, of which 14 years in banking.
- Joined the Group in 2003.

Krishnan Hariharan
Head, Risk Management, Chief Risk Officer

Qualifications and experience:

- Master in Financial Management, Jamnalal Bajaj Institute of Management Studies, Mumbai University, India (1996)
- Bachelor of Arts, Osmania University, India (1993)
- Bachelor of Commerce, Mumbai University, India (1990)
- 34 years of banking experience.
- Joined Ithmaar in 2016.

Mohammed Hasan Janahi
Assistant General Manager, Retail Banking

Qualifications and experience:

- Advanced Diploma in Banking and Finance, BIBF (1998).
- 32 years of Banking experience.
- Joined the Group in 2002.

Yousif Abdulla Alkhan
Assistant General Manager, Information Technology

Qualifications and experience:

- Masters of Business Administration, AMA International University (2005).
- Bachelor of Science in Computer Science, University of Bahrain (1989).
- 28 years of experience.
- Joined the Group in 1989.

Rafed Ahmed Al Mannai
Head, Private Banking

Qualifications and experience:

- Master of Commerce in Information Systems, University of Queensland (2000).
- Bachelor of Science in Architectural Engineering, University of Bahrain (1998).
- 16 years of banking experience.
- Joined the Group in 2007.

Abdulla Abdulaziz Ali Taleb
Head, Commercial and Financial Institutions

Qualifications and experience:

- Bachelor of Science in Banking and Finance, Kingdom University (2009).
- 17 years of banking experience.
- Joined Ithmaar in 2014.

Saqib Mahmood Mustafa

Head, Financial Control

Qualifications and experience:

- Member of the Institute of Chartered Accountants of England & Wales (ICAEW) (2010).
- Fellow Member of the Association of Chartered Certified Accountants (ACCA) (2003)
- Certified Islamic Professional Accountant (CIPA) (awarded by AAOIFI) (2009)
- 18 years of banking and finance experience.
- Joined Ithmaar in 2007.

Dana Aqeel Raees

Head, Legal Department and Corporate Secretary

Qualifications and experience:

- Bachelor of Laws (LLB), UK (2003).
- Post Graduate Diploma in Legal Practice (LPC), UK (2004)
- Admitted as a Solicitor in the Senior Courts of England and Wales (2010)
- 11 years of legal experience.
- Joined Ithmaar in 2006.

Hana Ahmed Al Murran

Head, Compliance and AML, Compliance Officer

Qualifications and experience:

- Master of Business Administration, University of Strathclyde, UK (2012).
- Bachelor of Science in Banking and Finance, University of Bahrain (2003).
- Certified Anti-Money Laundering Specialist (CAMS) awarded by the Association of Certified Anti-Money Laundering Specialist (ACAMS).
- 14 years of regulatory, banking and finance experience.
- Joined Ithmaar in 2015.

Dr. Adel Ahmed Al Marzooqi

Head, Sharia Compliance

Qualifications and experience:

- Doctor Degree in Islamic Studies, Lahaye University, The Netherlands (2011)
- Doctor of Philosophy with a Major in Islamic Studies, The Regents of American World University (2008).
- Master’s Degree in Islamic Studies, Lebanon (2004).
- Bachelors in Islamic Studies, Lebanon (1997)
- 16 years of Sharia experience.
- Joined the Group in 2009.

Enas Mohammed Rahimi

Head, Human Resources

Qualifications and Experience:

- Master in Business Administration, AMA International University (2007)
- Bachelor in Banking and Finance, University of Bahrain (2002)
- Certificate in Personnel Practice Awarded by CIPD (2010)
- 12 years of Human Resources experience
- Joined Ithmaar in 2005

Yaqoob Salim Al-Shomili

Head of Banking Operations

Qualifications and experience:

- Advanced Diploma in Banking Studies, Bahrain Institute of Banking and Finance (BIBF) (1994)
- Intermediate Diploma in Banking Studies, BIBF (1988)
- 30 years of retail banking experience.
- Joined Ithmaar in 1986.

Khalil Ebrahim Al-Asfoor

Acting Head of Internal Audit

Qualifications and experience:

- Associate Professional Risk Manager (APRM), Professional Risk Managers' International Association (PRMIA) (2012)
- Association of Chartered Certified Accountants (ACCA), (2005)
- B.Sc. In Accounting, University of Bahrain (2001)
- 15 years of retail banking and finance experience.
- Joined Ithmaar in 2016.

Ahmed Khamis Abdulla Al-Sowaidi

Head of Treasury

Qualifications and experience:

- Master of Business Administration (Financial Management), The University of Hull, UK (1993)
- B.Sc. In Business Administration, University of Bahrain (1987)
- 29 years of retail banking and finance experience.
- Joined the Group in 1994.

Corporate Governance

Corporate Governance

Ithmaar complies with the High Level Controls Module of the Rulebook issued by the Central Bank of Bahrain (CBB) and the Corporate Governance Code of the Kingdom of Bahrain.

Ithmaar's Corporate Governance Policy provides guidance on engaging with its stakeholder groups. It is based on the CBB's Rulebooks on High Level Controls and Public Disclosures, Ithmaar's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, Islamic Financial Services Board recommendations, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards, and international best practices, where applicable.

Recognising its fundamental stewardship role towards shareholders, it is Ithmaar's policy to treat shareholders, major and minor, equally and fairly in line with the governing laws and regulatory guidelines. The overarching goal is to ensure sustainable growth with due consideration to both current and future risks, and thereby generate optimum value to shareholders over the long-term. Ithmaar adheres to Sharia principles in striking a balance between the interests of its various stakeholders.

Ithmaar adheres to a business approach that is transparent, honest and fair. It has established various written policies such as the Code of Ethics and Business Conduct, Anti-Money Laundering and Whistle-Blowing Policy for strict adherence by Directors, executives and employees at all levels. These are distributed as guidelines through multiple internal communication channels.

The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

Moreover, Ithmaar's corporate governance policies are designed to lay a solid foundation for the executive management and the Board of Directors in managing Ithmaar, as well as to promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly and recognise the legitimate interest of stakeholders.

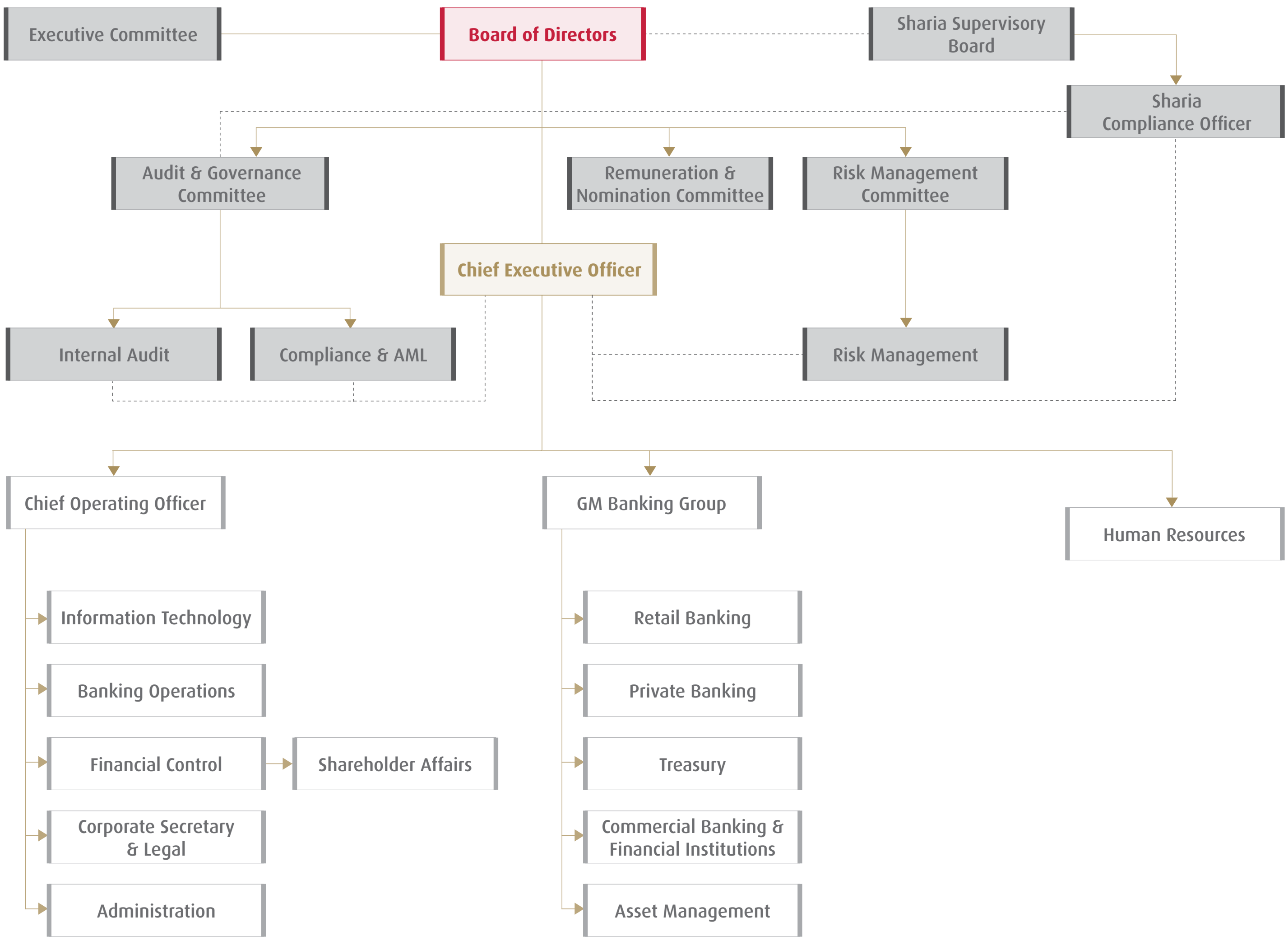
Ithmaar's written Code of Ethics and Business Conduct that binds all employees, members of the Sharia Supervisory Board and Directors, lends further weight to the practical implementation of our stated policies. The Corporate Governance policy is posted on Ithmaar's website.

Administration

Ithmaar is administered by the Board of Directors and the Sharia Supervisory Board, and, for day-to-day matters, by the Executive Management.

Ithmaar's corporate governance policies are designed to lay a solid foundation for the executive management and the Board of Directors in managing Ithmaar, as well as to promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly and recognise the legitimate interest of stakeholders.

ORGANISATION CHART



Note: For Corporate Secretariat related matters, the Corporate Secretary will report to the Chairman of the Board of Directors and administratively report to the Chief Executive Officer

This Organisation Chart illustrates the reporting lines that were in place at the former Ithmaar Bank B.S.C.

Following the implementation of the new group structure, which was completed on 2 January 2017, all functions at Ithmaar Holding, except that of the Chief Executive Officer, have been outsourced to Ithmaar Bank B.S.C. (c). The "Audit & Governance Committee" and the "Risk Management Committee" have also been merged into the "Audit, Governance & Risk Management Committee".

Board of Directors

The Board of Directors comprises twelve members of whom seven are independent. The Board is headed by a Chairman who is not an independent director as defined by the CBB Rulebook.

The Board of Directors is accountable to the shareholders for setting the broad policy guidelines and strategic direction as well as the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board and ensuring its effectiveness.

The Board's role includes the task of monitoring management in such a manner as to ensure that appropriate policies and processes are in place, that they are operating effectively, and that Ithmaar is meeting its plans and budget targets.

The Board of Directors duties and responsibilities are documented in the Bank's Corporate Governance Policy, and include, among other things, the following responsibilities:

- Set the strategic direction
- Overall responsibility for the performance of Ithmaar
- Select, appoint and evaluate the Executive Management
- Review management performance and compensation
- Review management structure and succession planning
- Advise and counsel management
- Monitor and manage potential conflict of interest
- Ensure the integrity of the financial information
- Monitor the effectiveness of the governance and compliance practices
- Timely and adequate disclosures
- Ensure effective risk management and internal control measures
- Arrange shareholders' general meetings
- Ensure equitable treatment of minority shareholders

Some of the responsibilities of the Board of Directors are delegated to the Committees of the Board.

The Board of Directors has drawn a 'Business Discretionary Powers' policy which outlines authorities and approval powers for the Board and the Executive Management. In general, all business decisions relating to strategic investment, and financing exceeding certain limits, including business relationship with connected counterparties, require the Board's approval.

All transactions that require Board approval have been approved by the Board as per applicable regulations. The Board of Directors' functions, mandate, appointment, responsibilities and terminations are governed by the Articles of Association of Ithmaar which complies with applicable statutory and regulatory structures. Board members serve three year terms, unless reinstated.

The next election of Directors will take place during the Annual General Meeting in 2019.

STRUCTURE AND COMPOSITION OF THE BOARD

Ithmaar is administrated at the high level by a Board of Directors.

The actual size of the Board is determined by the shareholders in the General Meetings. In all cases the size of the Board is subject to Ithmaar's Articles of Association and the rules and procedures decreed by the Ministry of Industry, Commerce and Tourism and/or the CBB.

DUTIES OF DIRECTORS

Directors, individually and collectively, are bound by distinct fiduciary duties to Ithmaar. Directors owe their fiduciary duty to Ithmaar as a corporate being in its own right and not just individual shareholders and/or group of shareholders. These duties apply to all Directors whether they are representing (appointed by) major shareholders or are elected as an Independent Director.

The main duties that Directors owe Ithmaar are the duty of obedience, the duty of care and the duty of loyalty.

Duty of Obedience

Directors are required to act in accordance with Ithmaar's rules and policies and in furtherance of its goals as stated in the Mission Statement and Memorandum & Articles of Association. In addition, Directors must comply with all relevant laws and regulations. The duty of obedience forbids acts outside the scope of internal authorities, powers and limits.

Duty of Care

Directors are under duty to exercise the same care that an ordinary, prudent person would exercise in a like position or under similar circumstances.

In complying with this duty, Directors are expected to:

- Attend all Board meetings. At a minimum, Directors are expected to attend not less than 75 percent of all scheduled Board and Committee meetings.
- Consider all material information reasonably available and/or seek relevant information prior to making a business decision relating to the issue. Directors have the rights of access to the Executive Management and/or advisors when in doubt.

Duty of Loyalty

This duty requires Directors to act solely in the best interest of Ithmaar, free of any self-dealing, conflicts of interest, or other abuse of the principal for personal advantage. Directors are barred from using Ithmaar properties or assets for their personal pursuits, insider trading, or taking business opportunities for themselves. This duty also requires Directors to retain the confidentiality of information that is explicitly deemed confidential, as well as information that appears to be confidential from its nature or matter.

Ithmaar provides insurance to indemnify Directors for negligence, default, breach of duty or breach of trust provided such breach has occurred in good faith.

The above duties are detailed in the Code of Ethics and Business Conduct that is approved by the Board.

DIRECTORS' ELECTION AND EVALUATION SYSTEM

Any shareholder who owns 10 percent or more of the capital of Ithmaar shall have the right to appoint a representative on the Board of Directors.

Subject to the foregoing, the General Assembly shall elect members of the Board of Directors by a secret ballot. The members shall be elected by the relative majority of valid votes.

All appointments to the Board of Directors are governed by and subject to Ithmaar's Memorandum & Articles of Association, the Code of Ethics and Business Conduct, the Corporate Governance Policy and the laws, rules, regulations, policies and charters in place, as amended from time to time.

The Remuneration and Nomination Committee reviews annually the composition and performance of the Board of Directors. The Remuneration and Nomination Committee's duties in relation to the composition and performance of the Board of Directors include, among other things, assessing the skills required for the Board of Directors to competently discharge its responsibilities and meet its objectives as well as developing and implementing a plan to identify, assess and enhance Directors' competencies.

In the event of a vacancy on the Board of Directors, the Remuneration and Nomination Committee shall make recommendations to the Board of Directors for the appointment of a Director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All Directors receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

Directors also receive a copy of the Code of Ethics and Business Conduct.

BOARD INDUCTION PROGRAMME

The Company Secretary provides sufficient information to newly appointed or elected Board members including a discussion of the Corporate Governance Principles and the Code of Ethics and Business Conduct. These Board members are also received by the Chief Executive Officer who provides them with details on the structure of Ithmaar, strategic and business plans, past financial performance and outstanding issues. Newly appointed members also meet with, and receive presentations from, the Heads of various departments. The Board is continuously kept abreast of new regulations and laws.

DIRECTORS' REMUNERATION

Directors' sitting fees for 2016 amounted to US$423,500 (2015: US$291,500). Sharia Supervisory Board retention fee amounted to US$60,000 (2015: US$60,000) and their sitting fees for 2016 was US$29,500 (2015: US$16,000).

Remuneration Related Disclosures

In 2014, Ithmaar Bank B.S.C. adopted the Sound Remuneration Practices issued by the Central Bank of Bahrain and established accordingly the Variable Remuneration Policy and Share Incentive Scheme.

In 2016, the Remuneration and Nomination Committee of the Board (RNC) and Board approved to amend the Variable Remuneration Policy and Share Incentive Scheme. Post reorganisation, the Variable Remuneration Policy and Share Incentive Scheme is applicable only to Ithmaar Bank B.S.C. (c) (the Bank).

The key features of the policy are summarised below.

Remuneration strategy

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

The Bank's reward package comprises the following key elements:

1. Fixed pay;

2. Benefits;

3. Discretionary performance bonus

A robust and effective governance framework ensures that the Bank operates within clear parameters of its remuneration strategy and policy. All remuneration matters, and related overall compliance with regulatory requirements, are overseen by the RNC.

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

In order to ensure alignment between what we pay our employees and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives in line with our performance management system.

This assessment also takes into account adherence to the Bank's values, risk and compliance measures and, above all, acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also, importantly, on how it is achieved, as the RNC believes the latter contributes to the long-term sustainability of the business.

RNC Role and focus

The RNC has oversight of all employee reward policies. The RNC is the supervisory and governing body for remuneration policy, practices and plans.

The responsibilities of the RNC as regards the variable remuneration policy, as stated in its mandate, include, but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking into account the total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn some short-run incentives but take different amounts of risk.
- Ensure that for approved persons in risk management, internal audit, operations, financial controls and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board Member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.

The Remuneration Policy is reviewed on a periodic basis to reflect changes in market practices and Ithmaar's business plan and risk profile.

Scope of application of the remuneration policy

The Remuneration Policy has been adopted in 2014 on a bank-wide basis. Amendments to the Policy to give effect to the restructuring of the Bank were approved by the RNC in 2016.

External consultants

Consultants were appointed during the year to advise on amendments to the variable remuneration policy in line with the corporate restructuring of the Bank. The external consultants advised the Bank on policy amendments such that the policy continues to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in re-designing an appropriate Share-based Incentive Scheme. Some of the key amendments to the policy are:

Area of change	Summary of changes
Applicability	• Applies only to Ithmaar Bank B.S.C.(c) (the Bank) in Bahrain • Ithmaar Holding B.S.C. and IB Capital B.S.C. (c) are excluded from this policy
Non-cash instrument	• Real Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) shares replaced by Phantom shares of the Bank • Additional options for (Performance Linked Units (PLU's) introduced in the policy to be applied at discretion of the RNC • Long Term Incentive Plan (LTIP) and Future Performance awards introduced for more flexibility within the policy to be applied at discretion of RNC
Grant price	• Net book value of the Bank at each audited balance sheet date will be used rather than market price of the share since the banking entity will not be a listed entity.
Dividend entitlements	• Dividends not to earn profit

Board remuneration

Ithmaar's board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that the total remuneration (excluding sitting fees) does not exceed 10 percent of the net profit, after all the required deductions outlined in Article 188 of the Companies Law in any financial year. The board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive directors do not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for employees

The variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of the employee's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering strategic objectives.

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

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

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

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

To have any funding for distribution of bonus pool, thresholds of financial targets have to be achieved. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk adjustment and linkage framework.

Remuneration of control and support functions

The remuneration level of employees in the control and support functions allows Ithmaar to employ and retain qualified and experienced personnel in these functions. Ithmaar ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives.

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

Variable compensation for business units

Variable compensation for the business units is primarily decided by the key performance objectives set through the performance management system. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk are treated differently by the remunerations system.

Risk assessment framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. The risk assessment process encompasses the need to ensure that the remuneration policy reduces employees' incentives to take excessive and undue risk, is symmetrical with risk outcomes, and has an appropriate mix of remuneration that is consistent with risk alignment.

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

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

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

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

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

Risk adjustments

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

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

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

The RNC, with the Board's approval, can rationalise and make the following discretionary decisions:

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

Malus and Clawback framework

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

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

The Bank's malus and clawback provisions allows the Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include the following:

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

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

Components of Variable remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a vesting period of three years.
Deferred Non- cash	The Bank has two forms of non-cash awards to align long term performance and risk and to encourage employee retention • Deferred short term incentives – incentives that are rewarded for current performance and considered as earned but are deferred in terms of payment to employees. These include deferred annual bonus in the form of Phantom Shares Awards ('PSA') or Deferred annual bonus Performance Linked Units (PLU). The minimum term of deferral is 3 years. • Future performance awards (FPA) – incentives that are awarded with future performance and service conditions i.e. not yet earned by the employee. FPA include Long Term Incentive Plan (LTIP) shares in the form of phantom shares and Performance linked units and provide better risk alignment to the business and individual performance of the employee.

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

During 2017 the Human Resources department will implement the Board approved amendment to substitute the existing scheme in which the amount of shares outstanding vested and undelivered shares will be immediately substituted with cash as at the current date, whereas the unvested shares will also be substituted for cash but settled over the original deferral period for that share award. Phantom shares will be awarded as part of variable remuneration for the year ended 31 December 2016 and going forward.

Deferred compensation (Bahrain)

All employees with job titles of Executive Senior Manager and above shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	Assistant General Managers and above	Executive Senior Managers	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	70%	Immediate	-	-	Yes
Deferred cash	-	30%	Over 2 years	-	Yes	Yes
	10%	-	Over 3 years	-	Yes	Yes
Deferred non-cash	50%	-	Over 3 years	6 months	Yes	Yes

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

Employee remuneration (Bahrain)

2014											
BHD	No. of Staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Cash	others	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	
Approved persons Business lines	3	577,906	-	-	-	110,683	-	27,670	138,354	-	276,707
Control & support	11	1,095,845	-	-	-	108,449	-	34,091	84,653	-	227,193
Other material risk takers	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-
Other staff	5	339,911	-	-	-	22,352	-	9,136	0	-	31,488
Other Staff of Bahrain Operations	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-
Staff of Branches & subsidiaries	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-
Total	**19**	**2,013,662**	**-**	**-**	**-**	**241,484**	**-**	**70,897**	**223,007**	**-**	**535,388**

2015											
BHD	No. of Staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Cash	others	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	
Approved persons Business lines	3	730,929	-	-	-	144,025	-	36,006	180,031	-	360,062
Control & support	11	1,256,677	-	-	-	136,633	-	45,194	93,537	-	275,364
Other material risk takers	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-
Other staff	5	352,309	-	-	-	26,282	-	11,264	-	-	37,546
Other Staff of Bahrain Operations	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-
Staff of Branches & subsidiaries	Not Applicable	Not Applicable	-	-	-	-	-	-	-	-	-
Total	**19**	**2,339,915**	**-**	**-**	**-**	**306,940**	**-**	**92,464**	**273,568**	**-**	**672,972**

Deferred awards for Current Year (2016)

	Cash	Shares		Other	Total
	BHD	Number	BHD	BHD	BHD
Opening balance	69,879	-	496,575	-	556,455
Awarded during the period	-	-	-	-	-
Paid out / released during the period	-	-	-	-	-
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested opening awards	-	-	-	-	-
Total	69,879		496,575		556,455

Deferred awards for Previous Year (2015)

	Cash	Shares		Other	Total
	BHD	Number	BHD	BHD	BHD
Opening balance	712,402	-	497,436	-	1,209,838
Awarded during the period	(548,425)	-	-	-	(548,425)
Paid out / released during the period	(94,098)	-	(860)	-	(94,958)
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested opening awards	-	-	-	-	-
Closing Balance	69,879		496,576		566,455

Additional remuneration data will be made available on the website.

Board committees

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

AUDIT AND GOVERNANCE COMMITTEE

The Audit and Governance Committee is appointed by the Board of Directors to assist in reviewing the selection and application of the accounting and financial policies, reviewing the integrity of the accounting and financial reporting systems and the effectiveness of the internal controls framework, monitoring the activities and performance of the internal audit function and external auditors and coordinating the implementation of the Corporate Governance Policy framework.

The Audit and Governance Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors, among other things: the interim and annual consolidated financial results; status updates on implementation on various regulatory reports; internal and external audit reports and status of their implementation (as appropriate); liquidity and capital adequacy action plan; new accounting and regulatory pronouncements and their implications.

This committee also assists the Board in fulfilling its governance responsibility, particularly to (a) oversee and monitor the implementation of a robust compliance framework by working together with the Management and the Sharia Supervisory Board, and (b) provide the Board of Directors with reports and recommendations based on its findings in the exercise of its function.

The Audit and Governance Committee is chaired by an Independent Director and comprises:

- Dr. Amani Khaled Bouresli - Chairperson and Member
- Tunku Yaacob Khyra – Member
- Sheikh Zamil Abdulla Al-Zamil – Member
- Mr. Abdulshakoor Hussain Tahlak – Member
- Sheikh Dr. Osama Bahar - Member

Sheikh Dr. Bahar is a Sharia Supervisory Board Member with a voting right in respect of the agendas relating to the Corporate Governance.

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board of Directors during the year include:

- Reviewing the consolidated financial statements and recommending to the Board for approval;
- Reviewing and approving the proposed annual Internal Audit plan and strategy and all reports issued by the Internal Audit Department; and
- Providing oversight for the Corporate Governance, Compliance and Regulatory requirements.

RISK MANAGEMENT COMMITTEE (RMC)

The primary objectives of the Risk Management Committee are to make recommendations to the Board in relation to the overall risk appetite and tolerances and the risk policies within which to manage them. These policies cover credit risk, market risk, operational risk and liquidity risk in addition to any other risk categories Ithmaar faces in carrying out its activities.

The Risk Management Committee also recommends and monitors the overall risk management framework which involves all business activities and operations policies, internal controls, methods of risk management and risk reporting to the Board.

The Risk Management Committee of the Board duly discharged its responsibilities during the meetings where key matters were discussed or through circular resolutions.

The Risk Management Committee comprises:

- Abdelhameed Abou Moussa - Chairman and Member
- Mr. Abdulellah Ebrahim Al-Qassimi – Member
- Mr. Nabeel Khalid Kanoo – Member

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- Updating and aligning all risk policies in line with changes in the regulatory requirements;
- Establishing new risk limits for better control of credit, market, liquidity and concentration risks;
- The Internal Capital Adequacy Assessment Process (ICAAP) report for review.

During 2017, the Audit and Governance Committee (AGC) and the Risk Management Committee (RMC) were merged into the Audit, Governance and Risk Management Committee (AGRMC). Also, their related functions and responsibilities are now under AGRMC.

The Audit, Governance and Risk Management Committee (AGRMC) is chaired by an Independent Director and comprises:

- Dr. Amani Khaled Bouresli - Chairperson and Member
- Sheikh Zamil Abdulla Al-Zamil – Member
- Mr. Abdulellah Ebrahim Al-Qassimi – Member
- Mr. Nabeel Khalid Kanoo – Member
- Sheikh Dr. Osama Bahar - Member

Sheikh Dr. Bahar is a Sharia Supervisory Board Member with a voting right in respect of the agendas relating to the Corporate Governance

EXECUTIVE COMMITTEE

The Executive Committee is appointed by the Board of Directors to assist with the oversight of the general management of the Bank and its business by management, as well as considering and recommending to the Board of Directors the strategy, business plans and budget and evaluating the financial and business performance. The Executive Committee reviews and, as appropriate, approves and/or recommends for the approval to the Board of Directors: credit proposals over certain threshold; review of asset quality and exit strategies; status updates and reports from the management in respect of group reorganisation; consolidated financial performance; liquidity and capital adequacy action plan; strategic business plan; and key management initiatives, including with respect to funds under management.

The Executive Committee comprises:

- Mr. Omar Abdi Ali – Chairman and Member
- Mr. Mohammed Bucheerei - Member

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board of Directors during the year include:

- Evaluating the financial and business performance and monitoring the implementation of the approved business / budget plans against Key Performance Indicators (KPIs);
- Approving business proposals falling within its authority in accordance with the Business Discretionary Powers Policy.
- Reviewing the Company's funding requirements and strategies;
- Reviewing the strategic business plan and annual budget and recommending to the Board for approval;
- Reviewing the financial position (including the capital adequacy and liquidity positions) and the status of its overall business portfolio; and
- Reviewing strategic and other investments.

During 2017, the Executive Committee has been dissolved.

REMUNERATION AND NOMINATION COMMITTEE (RNC)

The Remuneration and Nomination Committee is appointed by the Board of Directors to provide a formal forum for communication between the Board and Management on human resource issues.

The Remuneration and Nomination Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors:

- Candidates for Board election;
- The appointment of new senior management executives;
- The remuneration policies as well as guidelines for increments and promotions;

The Committee has at least two Independent Directors, one of whom acts as the Chairperson:

- Sheikha Hissah Bint Saad Al-Sabah - Chairperson and Member
- Tunku Yaacob Khyra – Member
- Mr. Abdulellah Ebrahim Al-Qassimi – Member

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- Recommending to the Board changes in the structure and job descriptions of Approved Persons;
- Recommending to the Board the compensation adjustments, based on annual appraisals, and promotion of executive management;
- Recommending the composition, quantum and structure of remuneration for the members of the Sharia Supervisory Board;
- Recommending the organisation chart and succession plan and
- Recommending the Variable Remuneration Policy implemented in compliance with the regulations of the Central Bank of Bahrain on Sound Remuneration Practices of Approved Person and Material Risk Takers.

The key matters reviewed and approved (as appropriate) during the year include:

- Approving the strategic business plan and budget;
- Overseeing the implementation of strategic initiatives with respect to group restructuring/reorganisation; and
- Reviewing status of action plan to comply with regulatory requirements.

Total remuneration paid to Remuneration and Nomination Committee members was US$80,500 in 2015, and US$135,000 in 2016. The Remuneration and Nomination Committee met four times in 2015, and five times in 2016.

During 2017, the Remuneration and Nomination Committee has been reconstituted. The Committee is chaired by an Independent Director and comprises:

- Sheikha Hissah Bint Saad Al-Sabah - Chairperson and Member
- Mr. Abdulellah Ebrahim Al-Qassimi – Member
- Mr. Abdulshakoor Hussain Tahlak – Member

Attendance

2016 Board of Directors / Board Committees Meetings Attendance

	Board of Directors		Audit & Governance Committee		Executive Committee		Remuneration & Nomination Committee		Risk Management Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
1. HRH Prince Amr Mohammed Al Faisal	4	4	-	-	-	-	-	-	-	-
2. Mr. Khalid Abdulla - Janahi	4	4	-	-	-	-	-	-	-	-
3. Tunku Yaacob Khyra	4	4	4	3	-	-	5	4	-	-
4. Shaikha Hissah bint Saad Al-Sabah	4	4	-	-	-	-	5	5	-	-
5. Sheikh Zamil Abdullah Al-Zamil	4	4	4	4	-	-	-	-	-	-
6. Governor Abdelhamid Abomoussa	4	3	-	-	-	-	-	-	4	3
7. Mr. Nabeel Khaled Kanoo	4	4	-	-	-	-	-	-	4	4
8. Mr. Mohammed Bucheerei	4	4	-	-	5	5	-	-	-	-
9. Mr. Abdulellah Ebrahim Al-Qassimi	4	4	-	-	-	-	5	5	4	4
10. Mr. Imtiaz Ahmad Pervez (Term ended on 28 March 2016)	1	1	1	1	-	-	-	-	-	-
11. Mr. Graham R.Walker (Term ended on 28 March 2016)	1	1	-	-	2	2	-	-	-	-
12. Mr. Omar Abdi Ali	4	4	-	-	5	5	-	-	-	-
13. Dr. Amani Khaled Bouresli (Elected on 28 March 2016)	3	3	3	3	-	-	-	-	-	-
14. Mr. Abdulshakoor Hussain Tahlak (Elected on 28 March 2016)	3	3	3	2	-	-	-	-	-	-

Dates of meetings during 2016

	3 March	18 February	17 February	3 March	2 March
	6 June	8 May	2 March	20 March	5 June
	8 September	7 August	5 June	6 June	7 September
	5 December	6 November	7 September	8 September	4 December
			4 December	5 December	

Note:

* Sheikh Dr Osama Bahar is a member of the Audit & Governance Committee (Sharia Supervisory Board Member).

In accordance with Ithmaar's Articles of Association, the Board of Directors meets at least four times a year and the Board advises each Director of the requirement to attend at least 75 percent of all Board meetings and the meetings of the committees on which they serve.

The Board of Directors is responsible for setting the strategic direction in accordance with the objectives upon which Ithmaar is established and ensuring that the business activities are aligned with the terms of the regulatory licence as well as the interest of the Shareholders. The Board of Directors has overall responsibility for the performance of Ithmaar and therefore the Board of Directors, among other things receive, review and, as appropriate, approve: the status updates from the chairpersons of the various committees of the Board; the status updates and reports from the management in respect of the strategic business plan; the consolidated financial performance; the liquidity and capital adequacy action plan; the regulatory reports and related communications; related-party proposals; and key management initiatives.

SHARIA SUPERVISORY BOARD

Ithmaar shall always conduct its business in accordance with Islamic Sharia rules.

In compliance with licensing requirements of the Central Bank of Bahrain (CBB), Ithmaar's Memorandum and Articles of Association and the general practice of Islamic Banking, Ithmaar, at all times, has a Sharia Supervisory Board (SSB) appointed by the shareholders at the General Meeting based on recommendations of the Board of Directors (through the Remuneration and Nomination Committee).

The SSB actively participates in developing and overseeing Ithmaar's products and business activities. It is responsible for certifying every product to ensure strict adherence to the principles of Sharia.

The SSB has full access to the Board and to the management personnel, including access to the head of the Sharia Compliance Department at Ithmaar who is proactively involved in: (a) reviewing and advising on the Sharia compliance of all products and investment projects, (b) reviewing operations according to SSB fatwas and AAOIFI standards and (c) producing periodic reports to the SSB in order to ensure that activities are under a strict and direct oversight of SSB guidelines and decisions. Furthermore, the Sharia Compliance Department monitors activities on a day-to-day basis to ensure that all areas adhere to the SSB's decisions and recommendations.

The SSB operates within its own charter which sets forth its policies, procedures, meeting operations and responsibilities in addition to the qualifications for membership. This charter was developed in coordination with the Board and is disclosed on the website.

SSB members are entitled to remuneration comprising an annual retainer fee and sitting fees paid per meeting attended.

Non-resident members are also entitled for full travel expenses. These remunerations are recommended by the Remuneration and Nomination Committee, the structure of which is approved by the shareholders.

Currently, Ithmaar does not pay any performance related remuneration to SSB members. If any, this will be structured in accordance with the Memorandum and Articles of Association and subject to shareholder approval.

The profiles of all SSB members are included in the Sharia Supervisory Board section.

MANAGEMENT

The day-to-day operations of Ithmaar are handled by the Executive Management team.

Departments are grouped into Business, Control and Support Units with clear delineation between them to avoid conflict of interests. These safeguard measures are reinforced by independent internal audit and risk management and compliance departments.

The Risk Management Department reports, functionally, to the Risk Management Committee and, administratively, to the Chief Executive Officer.

The Compliance and Anti Money Laundering Department reports, functionally, to the Audit and Governance Committee and, administratively, to the Chief Executive Officer.

The Internal Audit Department reports, functionally, to the Audit and Governance Committee and, administratively, to the Chief Executive Officer.

Going forward in 2017, the Department Heads for Risk Management, Internal Audit and Compliance and AML will functionally report to the AGRMC and, administratively, to the Chief Executive Officer.

Management remuneration

The Chief Executive Officer and senior management (Executive Senior Managers and above) are compensated in line with market trends. Ithmaar has implemented CBB guidelines with respect to management remuneration for performance evaluation.

The total remuneration of the Chief Executive Officer and senior management in 2016 was US$7.2 million (2015: US$8.4 million).

Management committees

Ithmaar had in place the following key Management Committees and, post reorganisation, the Bank retained these Management Committees. The members of committees comprise Heads of Divisions from relevant and related functions.

Investment and Credit Committee

The main objective of this Committee is to manage credit risk, including reviewing, approving and ratifying business proposals falling within its authority, reviewing risk management reports and resolving all credit-related issues. The Committee is chaired by the Chief Executive Officer.

Asset-Liability Committee

The Committee is responsible for business performance review, managing market and liquidity risks, and monitoring capital adequacy ratio. The main functions are to develop and manage the assets and liabilities in accordance with the Strategic Business Plan and relevant banking regulations and laws. The Committee is chaired by the Chief Executive Officer.

Management Committee

The Committee's principal objective is to manage operations risk. It focuses on improving communications and cooperation among the various divisions and departments and optimising operational efficiency. The Committee is chaired by the Chief Executive Officer. The Management Committee has several Sub Committees, including the Business Continuity Plan and Crisis Management Team Committee, and the IT Steering Committee.

Communication with stakeholders

The Board acknowledges the importance of regular communication with stakeholders and particularly investors through a number of means to promote greater understanding and dialogue. Measures adopted include Annual General Meetings, annual reports, quarterly disclosures of financial reports and various announcements made during the year on the Bahrain Bourse and Boursa Kuwait as well as on the Ithmaar website, through which stakeholders have an overview of Ithmaar's performance and operations.

The Chairman of the Board (or any other Director if delegated by the Chairman) maintains continuing personal contact with major shareholders to solicit their views. The Chairman discusses the views of the major shareholders with the Board of Directors.

Ithmaar maintains a website which stakeholders may access for information, which includes the corporate profile, corporate information, press releases, financial performance and career opportunities, amongst others.

To further assist with shareholder communications, Ithmaar has a dedicated Shareholders Affairs Unit with the primary responsibility of acting as a liaison between Ithmaar shareholders and the stock exchanges where the shares are listed. Views of shareholders are communicated to and discussed at Board meetings, which are part of the agenda.

Interests of Directors and Executive Management

The interests of Directors and Executive Management in the shares of Ithmaar are disclosed in the Report of the Directors and Share Information respectively.

Share Information

Information on the distribution of share ownership together with key statistics on the performance of Ithmaar's shares on the Bahrain Bourse and Boursa Kuwait are disclosed in the section on Share Information of the annual report.

Shareholders' Rights

Recognising the importance of shareholders, it is Ithmaar's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of shareholders include the right to participate in shareholder meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, jointly or severally. Their rights also include voting on the appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reduction of capital, right to receive dividend payments, as well as the right to give opinions and the right to inquire during shareholder meetings.

Rights of Minority Shareholders

The Board of Directors is structured to include independent Directors with additional responsibilities of protecting minority shareholders' rights.

As additional measures to protect minority interests, Ithmaar subscribes to the following guidelines:

- Mandatory shareholder approval of major transactions such as change in capital or transfer of business (as per limits prescribed by the Central Bank of Bahrain);
- Mandatory disclosures of transactions by substantial shareholders;
- Pre-emptive rights on issuance of new shares;
- Limitations on business transactions with Directors, controllers, and related parties as per the rules of the Central Bank of Bahrain;
- Exercise rights to elect independent Directors;
- Penalties for insider trading; and
- Provisions on takeovers, mergers, and acquisitions.

CODE OF ETHICS AND BUSINESS CONDUCT

Ithmaar's Code of Ethics and Business Conduct applies to members of the Board, as well as executive management, officers, employees, agents, consultants, and others, when they are representing or acting for Ithmaar.

The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to Ithmaar's policies. Any waiver of the Code of Ethics and Business Conduct for a Director or executive officer may be granted only by the Board or the appropriate Board committee and must be promptly disclosed to the shareholders.

The employment of relatives of approved persons is covered under the Human Resource Policy which requires the employee to declare to the Human Resources Department the relationship (father, mother, brother, sister, husband or wife) with any approved persons at the time of recruitment and/or subsequently, as appropriate. The employees will be given a grace period of one year so one or more of the relatives leave the Bank and exceptions, if any, require the approval of the Chief Executive Officer.

Risk Management

Compliance, Anti-Money Laundering and Internal Controls

Funds Under Management

RISK MANAGEMENT

Ithmaar has in place a comprehensive Enterprise Wide Risk Management Framework addressing all activities and commensurate to the business operations. The Risk Management Framework plays a pivotal role in protecting the shareholder's and customer's interests and is accorded paramount importance by the management.

The Risk Management Culture emanates at the level of Board of Directors who establish the risk appetite and tolerance levels in line with the business strategy. The risk management framework is detailed in the Risk Charter and the various risk management policies which include the approach and methodology for the management of various risks. The risk appetite and risk policies are periodically reviewed to maintain their relevance and alignment with the business strategy and prevailing market conditions.

Risk Management in Ithmaar is considered a collective responsibility and hence the risk management culture is effectively communicated across the organization. Ithmaar has an effective risk governance structure enabling the effective monitoring and management of risks across all business and support activities. The Board is assisted by the Board Risk Management Committee which meets periodically to oversee the implementation of the risk framework and management of the same. However the Board retains ultimate responsibility for the effective implementation and functioning of the risk management framework and thereby approves all risk management policies. The Board Risk Management Committee is supported by an independent Risk Management Department which is responsible for implementing the Board-approved risk management framework in close coordination with the senior management and all other relevant departments.

Risk management framework also encapsulates a robust monitoring and reporting process wherein the Risk Management Department monitors risk parameters on an ongoing basis against the Board approved limits and tolerance levels and presents the same to the management and the Board.

Additional information on the risk framework and the approach and methodology of managing each dimension of risk is detailed in the Public Disclosures section.

COMPLIANCE, ANTI-MONEY LAUNDERING AND INTERNAL CONTROLS

Compliance

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that Ithmaar may suffer as a result of its failure to comply with the requirements of relevant laws and regulations. By the terms of its licence and listing rules, Ithmaar is subject to compliance with the requirements stipulated by the CBB, the Bahrain Bourse, Boursa Kuwait, the Bahrain Commercial Companies Law and the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Sharia Standards and the Sharia Supervisory Board (SSB) Fatwas.

Compliance risk is managed through the Compliance Policy which provides for the assessment of compliance risks, implementation of controls, monitoring and testing of framework effectiveness, the escalation, remediation of compliance incidents and control weaknesses.

Ithmaar's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations. The Compliance Officer ensures that operations achieve a consistently high level of compliance with all relevant laws and regulations. Each of Ithmaar's subsidiaries also employs local compliance officers, if applicable, to ensure adherence to local requirements and regulatory issues. Consolidated reports are prepared for the Board's review.

CUSTOMER COMPLAINT PROCEDURES

A formal customer complaints procedure is in place that complies with CBB rules and regulations. A dedicated customer complaints unit and officer is responsible for handling and resolving complaints. Contact details of the complaints unit are published at all branches and on Ithmaar's website. All customer complaints are promptly resolved up to the best satisfaction of the customers.

ANTI-MONEY LAUNDERING

It is Ithmaar's policy to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities.

For this purpose, Ithmaar has defined strict policies and procedures in compliance with the Financial Crimes Regulations issued by the CBB. These policies and procedures apply to all employees, branches and offices of the Bank.

Ithmaar has adopted specific initiatives and measures to facilitate implementation of these policies and procedures. These include the appointment of a Money Laundering Reporting Officer (MLRO), who is empowered with sufficient mandate to implement the Bank's Anti-Money Laundering (AML) programmes. The MLRO independently enforces the AML policies and reports any incidents to the Board of Directors and/or the applicable regulatory authorities. All employees undergo compulsory AML trainings with regular refresher courses.

The AML and Know Your Customer (KYC) framework incorporates the following four key elements: customer acceptance, customer identification procedures, transaction monitoring and risk management.

INTERNAL CONTROLS

The Board of Directors places significant emphasis on efficient internal control systems to ensure shareholders' and investment account holders' interest and that Ithmaar's assets are safeguarded.

This internal control mechanism is delineated with appropriate policies, procedures, control manuals, and a regular management reporting system. The Board has approved the organisational structure to enhance efficient functioning of management and to avoid any conflict of interest.

The organisation structure clearly defines the lines of responsibility, approval authority and accountability aligned to business and operations requirements which support the maintenance of a strong control environment. Appropriate processes such as authorisation of limits, segregation of duties, reconciliation of accounts and the valuation of assets and positions are robustly operational. Well established budgeting and forecasting procedures are in place and reports are regularly presented to the Board detailing:

- Business plans and strategies;
- Results of operations;
- Key risk areas;
- Variances against budget; and
- Other performance data.

Funds Under Management

As a commercial financial institution, a fundamental objective of the Bank is to act as a financial intermediary, channelling funds between deficit and surplus agents, for economic benefits. This is usually done through pooling monetary resources from Investment Account Holders (IAH), investing them in the market, and sharing the profits with IAHs at predetermined ratios and conditions set out in the agreements. This activity is known as Funds Under Management (FUM).

STRUCTURE OF THE FUNDS

The Bank provides three types of FUMs, namely Un-restricted Investments Accounts (URIA), Restricted Investments Accounts (RIA), and Collective Investment Undertakings (CIU).

I. Un-restricted Funds (URIA)

In the case of URIA accounts, the Bank as Mudarib (investment manager) is authorised by the Investment Account Holders (IAHs) to invest their funds in any manner which the Bank deems appropriate, without laying down restrictions as to where, how, and for what purpose their contribution amounts should be invested. All URIA funds are accounted for as 'on' balance sheet items. These funds are open for the public (natural persons and corporates including financial institutions) provided they satisfy the Bank's Know Your Customer (KYC) requirements.

As of 31 December 2016, the Bank operated URIA funds are as follows:

- General Modaraba
- Special Modaraba

II. Restricted Funds (RIA)

In the case of RIA accounts, the Bank as the Mudarib is restricted by the IAHs with regard to the use of their funds - where, how, for what period, and for what purpose their contribution amounts are invested. Such features are required to be agreed between the parties at the time of contracting (such as signing the Modaraba and/or Agency agreements) so as to formalise the relationship. RIAs funds are accounted for as 'off' balance sheet items as the Bank has no discretion on the utilisation of funds in case of RIA funds. As per the CBB's instructions, all future RIA funds shall be structured as CIUs.

The funds managed by the Bank are mainly in real estate and private equity.

These are subject to various risks including:

- Foreign exchange risk as a result of fluctuating currency exchange rates.
- Liquidity risk due to the nature of the holdings in those funds being not marketable nor listed on any security exchange platforms.
- Market risk as a result of changing market conditions, including demand and price changes.
- Economic risk due to changes in the economic climate.
- Credit risk of parties with whom the Fund conducts business and may also bear the risk of settlement default.
- Risks of changes in government policy, including issuing necessary approvals.
- The value of investments in real estate and/or the rental income derived from them will fluctuate as property values and rental incomes rise and fall.
- Investments in real estate may be affected by changes in the general economic climate, competition on rental rates, the financial standing of tenants, the quality of maintenance, insurance and management services and changes in operational costs.
- Investments in real estate which require development or refurbishment works may also entail risks associated with construction delays, cost overruns and an inability to rent either at all or at satisfactory rental levels following completion of the development or refurbishment works.
- The value of the investments may be affected by uncertainties, such as political developments, changes in governmental policies, taxation, currency repatriation restrictions, and restrictions on foreign investment in some or all of the countries in which the Fund may be directly or indirectly invested.
- The regulatory supervision, legal infrastructure and accounting, auditing and reporting standards in emerging markets may not provide the same degree of protection or information as would generally exist in more mature or developed markets.
- Risks from uncertainties such as political or diplomatic developments, social and religious instability, changes in government policies, taxation, and interest rates and other political and economic developments in legislation, in particular changes in legislation relating to the right of, and level of, foreign ownership.
- Risks outside control of funds, including labour unrest, civil disorder, war, subversive activities, sabotage, fires, floods, acts of God, explosions or catastrophes.

The specific risks for each fund is detailed in the respective prospectus. Ithmaar Bank discloses regular updates related to individual funds on its corporate website www.ithmaarbank.com

III. Collective Investment Undertakings (CIU)

CIU have the following features:

The collective capital raised from the public or through private placement, including investments seeded by the operator, is invested in financial instruments and other assets which operate on the basis of risk-spreading as appropriate, the holdings of which may be repurchased or redeemed.

These funds are structured in accordance with relevant CIU rules issued by CBB.

All investors are required to meet the KYC requirements as per CBB rules.

RISK AND REWARD

In accordance with the principles of Islamic Sharia, all FUMs are managed on profit and loss sharing basis with the IAH bearing all risks except for gross negligence and misconduct.

The profit or loss of a FUM is determined using the accounting policies normally applied by the Bank. The distribution of the profit or loss may either be on a limited or continuous basis as follows:

Specific Term

The IAH invests for a specific term, and profits/losses are accounted for at the time the Fund is liquidated (or staged liquidation) and the capital is returned to the IAHs along with any profits/losses.

Open Term

The IAH invests for an unspecified terms (such as Savings Accounts), and profits are accounted for on a periodical basis during the Modaraba period.

In case of RIA and CIU, specific expenses that may arise in relation to the launching of a Modaraba fund and in employment of funds may be charged against the gross revenue of that Modaraba, provided this is set out in the related Modaraba agreement. Audit and legal fees, documentation and printing charges are all examples of expenses that may be charged to the Modaraba. Distributable profit is calculated after all permitted expenses have been deducted. URIA funds are not subject to administration fees.

The Bank applies appropriate income smoothening techniques to ensure that profits are fairly distributed to the IAHs, both current and future. These include Profit Equalisation Reserves and Investment Risk Reserves.

REDEMPTIONS

All funds are redeemed on their respective maturities. In special circumstances, the Bank may allow early withdrawals by either finding a purchaser for the contribution, or by purchasing the IAH's contribution at prevailing market prices and provided such exposure does not cause any violations of regulatory or internal limits.

FIDUCIARY OBLIGATIONS

Although the IAH is fully responsible for risks associated with his/her investments in a FUM, the Bank is bound by its fiduciary obligation and duty of care to safeguard the assets of the IAHs. In this respect, the Bank subscribes to the following guiding principles issued by the Islamic Financial Services Board (IFSB):

- Aspire to the highest standards of truthfulness, honesty and fairness in all its statements and dealings, and treat its customers fairly
- Exercise due care and diligence in all its operations, including the way it structures and offers its products and provides financing, with particular regard to Sharia compliance, and to the thoroughness of research and risk management
- Ensure that it has in place the necessary systems and procedures, and that its employees have the necessary knowledge and skills, to manage FUMs in accordance with this policy and other regulatory rules
- Take steps to ensure that it understands the nature and circumstances of its IAHs so that it offers those products most suitable for their needs, as well as offering financing only for Sharia-compliant projects
- Provide clear and truthful information both in any public document issued as well as to its actual and prospective clients, both during the sales process and in subsequent communications and reports
- Recognise the conflicts of interest between it and its clients that arise from the type of products it offers, and either avoid or disclose and manage them, bearing in mind its fiduciary duties to IAHs as well as shareholders
- Ensure that its operations are governed by an effective system of Sharia governance and that it conducts its business in a socially responsible manner

INVESTMENT OBJECTIVES

The investment objective of the funds is to provide maximum returns to both the IAHs and the Bank in a manner that is consistent with the Modaraba agreement of the specific fund and Sharia guidelines while at the same time managing risks within predetermined levels.

GOVERNANCE OF FUNDS UNDER MANAGEMENT

The Board of Directors is responsible for ensuring that the Funds Investment Objectives are adhered to. The Board has established an Audit and Governance Committee commissioned, amongst other responsibilities, to look after the interests of the IAHs. The Asset-Liability Committee (ALCO) and Investment and Credit Committee (ICC) play a pivotal role in monitoring the performance of funds. The Asset Management Department is responsible for the effective management of RIA and CIU funds. Customer affairs are handled by various business units including the Retail Banking, Private Banking, and Commercial and Financial Institutions departments.

RIA and CIU funds are launched after comprehensive due diligence of the market and the needs and risk appetite of investors.

A comprehensive policy is in place which outlines processes for managing funds. All funds are reviewed independently by the Risk Management Department and the Compliance Department prior to their approval and launch. Once approved, these funds are utilised strictly in accordance with the fund's prospectus and terms of approval.

URIA Funds are primarily used for retail and commercial financings. The Bank diversifies the portfolio through establishing prudent limits determined by geographical areas, industry sectors, tenors, customer type, etc. The composition, characteristics and diversification of the Bank's funding structure is recorded in various risk policies.

All funds are reviewed periodically, at least annually, to assess their performance. These reviews are submitted to ICC for its review and approval. In case of adverse change in the risk profile of the Fund, the review is raised to the authority which originally approved the initial proposal.

The Profit Distribution Sheet (Modaraba Account) provides details on investment period and the Bank's share of investments in 2016 as per the terms and conditions:

Period	Bank's share (%)
Undetermined term (savings account)	60
1 month	50
3 months	45
6 months	40
9 months	38
1 year	35
18 months	33
2 years	30
30 months	28
3 years	25

The average benchmark and declared rate of return or profit rate on Profit Sharing Investment Accounts (PSIA) by maturity in percentage terms paid annually in 2016:

BD or US$	1 day	7 days	1 month	3 months	6 months	9 months	1 year	18 months	2 years	3 Years
Savings	0.10	-	-	-	-	-	-	-	-	-
General Modaraba	0.10	0.10	1.07	1.62	2.00	2.20	2.55	2.65	2.70	2.80
Special Modaraba	-	-	1.25	2.20	2.80	2.90	3.10	3.60	3.75	3.84

Consolidated financial statements

For the year ended 31 December 2016

Contents

Report of the Sharia Supervisory Board

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) for the Financial Year from 1 January 2016 until 31 December 2016, corresponding to the Period from 21 Rabi Al-Awwal 1437 H until 2 Rabi Al-Thany 1438 H.

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

The Sharia Supervisory Board of Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) («Ithmaar») performed the following acts during the financial year from 1 January 2016 until 31 December 2016:

1. Issued fatwas and Sharia resolutions related to Ithmaar's products and activities and followed them up through Ithmaar's Internal Sharia Audit Department while also guiding different departments towards Sharia-compliant transactions.
2. Studied different mechanisms of financing, investing and different mudaraba investments and prepare its documents with the concerned departments that develop and present products.
3. Examined transactions made in the books and records through the Internal Sharia Compliance Department and audited some of their samples as per established Sharia auditing standards.
4. Examined sources of income and expenditures through reviewing the consolidated statement of financial position, income statement and Ithmaar's overall banking activities.
5. Examined and approved periodic Sharia reports which are published by the Internal Sharia Audit Department.

We have reviewed the principles and contracts relating to transactions and products launched by Ithmaar during the period from 1 January 2016 to 31 December 2016. We have also conducted the required inspection to provide our opinion on whether Ithmaar had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us.

The management is responsible for ensuring that Ithmaar operates in accordance with the provisions and principles of Islamic Sharia and accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Our responsibility is to express an independent opinion based on our observation of Ithmaar's operations, and prepare a report.

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

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

a. Ithmaar's overall investment, financing activities and banking services were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.
b. Gains made from sources prohibited by Sharia were identified and transferred to the Charity Fund for activities related to Ithmaar's operations. And for non-sharia compliant income related to investments, these have been identified, disclosed and published to the shareholders in Note 41 of the Consolidated Financial Statements, taking into consideration that the Bank is still in the process of correcting the status of these investment according to the Sharia Board instructions.
c. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.

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

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

Although the period fixed by the Sharia Supervisory Board to dispose of these assets and liabilities either through selling it or coverting it to Islamic alternatives expired by the end of the financial year 2016, Ithmaar has been converted into a holding company. Ithmaar Holding retains 100 percent

Report of the Sharia Supervisory Board (Continued)

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

To ensure compliance with its Fatwa and directions, the Sharia Supervisory Board has reviewed the income statement of Ithmaar for the year ended 31 December 2016 and has satisfied itself that Ithmaar has appropriately disclosed the income and expenses arising from the conventional assets and liabilities in Note 41. Accordingly, the Sharia Supervisory Board guides the shareholders of Ithmaar to dispose of impermissible earnings which has been calculated, in the current year's financial statements, at 1.89 US cents per share.

We pray to Almighty Allah to grant success to Ithmaar and its employees and guide them in developing Islamic products and continue to comply with the Sharia principles and to grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

His Eminence Shaikh Abdulla Al Manee'a
Chairman

His Eminence Shaikh Mohsin Al-Asfoor
Member

His Eminence Shaikh Nizam Yacooby
Member

His Eminence Shaikh Dr. Osama Bahar
Member

Manama - Kingdom of Bahrain
27 February 2017

Directors' Report

For the year ended 31 December 2016

The Directors submit their report dealing with the activities of Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.) ("Ithmaar") for the year ended 31 December 2016, together with the audited consolidated financial statements of Ithmaar and its subsidiaries (collectively the "Group") for the year then ended.

Principal activities

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

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

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2016, together with the consolidated results for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net profit of $3.3 million for 2016 attributable to the equity shareholders of the Group, as compared to a net loss of $60.8 million for 2015. Total assets at 31 December 2016 amounted to $8,341.3 million (31 December 2015: $8,138.6 million).

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

Directors

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

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

Directors' sitting fees

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

Directors' Report (Continued)

For the year ended 31 December 2016

Interests of Directors

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

Name	Numbers of Shares	
	31 December 2016	31 December 2015
HRH Prince Amr Mohamed Al Faisal	**106,100**	106,100
Mr. Khalid Abdulla-Janahi	**20,749,693**	20,749,693
Mr. Tunku Yaacob Khyra	**106,100**	106,100
Mr. Abdel Hamid Abo Moussa	**106,100**	106,100
Sheikha Hissah Bint Saad Al-Sabah	**106,100**	106,100
Sheikh Zamil Abdullah Al-Zamil	**205,000**	205,000
Mr. Nabeel Khalid Kanoo	**106,100**	106,100
Mr. Mohammed Bucheerei	**105,600**	105,600
Mr. Abdulellah Ebrahim Al-Qassimi	**106,100**	106,100
Mr. Omar Abdi Ali	**-**	-
Dr. Amani Khaled Bouresli (Appointed with effect from 28 March 2016)	**-**	-
Mr. Abdulshakoor Hussain Tahlak (Appointed with effect from 28 March 2016)	**-**	-
Mr. Imtiaz Ahmad Pervez (Resigned with effect from 28 March 2016)	**-**	-
Mr. Graham R. Walker (Resigned with effect from 28 March 2016)	**1,056,000**	1,056,000

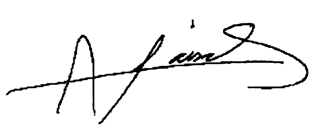
Dividend

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

Auditors

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

By order of the Board of Directors



HRH Prince Amr Mohamed Al Faisal
Chairman
27 February 2017

Independent Auditor's Report

To the Shareholders of Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.)

Report on the financial statements

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

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and the results of its operations, its cash flows, changes in owners' equity and changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Report on regulatory requirements and other matters

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

(i) Ithmaar has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

(ii) the financial information contained in the report of the directors is consistent with the consolidated financial statements;

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

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

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

PricewaterhouseCoopers

Partner's Registration No: 201

27 February 2017

Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

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

	Notes	At 31 December 2016 (Audited)	At 31 December 2015 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	736,033	590,409
Commodity and other placements with banks, financial and other institutions	4	142,607	270,820
Murabaha and other financings	5	3,444,588	3,399,770
Musharaka financing		229,960	149,673
Investment in mudaraba	6	14,425	21,348
Investment in associates	7	668,403	655,388
Sukuk and investment securities	8	1,874,782	1,919,430
Restricted investment accounts	9	79,852	78,651
Assets acquired for leasing	10	256,204	169,482
Investment in real estate	11	242,594	256,493
Other assets	12	361,654	319,437
Fixed assets	13	112,981	112,389
Intangible assets	14	177,227	195,351
Total assets		**8,341,310**	**8,138,641**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	15	1,581,113	1,436,335
Due to banks, financial and other institutions	16	1,141,513	1,639,871
Due to investors	17	1,903,612	1,752,626
Other liabilities	18	342,622	320,011
Total liabilities		**4,968,860**	**5,148,843**
Equity of unrestricted investment accountholders	19	2,769,694	2,397,957
Minority interest	20	175,341	177,618
Total liabilities, equity of unrestricted investment accountholders and minority interest		**7,913,895**	**7,724,418**
Share capital	21	757,690	757,690
Treasury shares	21	(27,802)	(30,149)
Reserves		218,460	210,894
Accumulated losses		(520,933)	(524,212)
Total owners' equity		**427,415**	**414,223**
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		**8,341,310**	**8,138,641**

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

HRH Prince Amr Mohamed Al Faisal
Chairman

Dr. Amani Khaled Bouresli
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 42 on pages 62 to 97 form an integral part of the consolidated financial statements.

Consolidated Income Statement

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

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

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

HRH Prince Amr Mohamed Al Faisal
Chairman

Dr. Amani Khaled Bouresli
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 42 on pages 62 to 97 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

			Reserves								
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves	Accumulated losses	Total owners' equity
At 1 January 2016 (Audited)	**757,690**	**(30,149)**	**149,692**	**38,090**	**50,727**	**9,212**	**1,586**	**(38,413)**	**210,894**	**(524,212)**	**414,223**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,279**	**3,279**
Employee share incentive scheme (note 21)	**-**	**2,347**	**(1,030)**	**-**	**-**	**-**	**-**	**-**	**(1,030)**	**-**	**1,317**
Movement in fair value of sukuk and investment securities	**-**	**-**	**-**	**-**	**-**	**18,227**	**-**	**-**	**18,227**	**-**	**18,227**
Movement in fair value of investment in real estate	**-**	**-**	**-**	**-**	**-**	**-**	**657**	**-**	**657**	**-**	**657**
Movement in fair value of associates	**-**	**-**	**-**	**-**	**-**	**(1,739)**	**-**	**-**	**(1,739)**	**-**	**(1,739)**
Foreign currency translation adjustments	**-**	**-**	**-**	**-**	**-**	**11**	**405**	**(8,965)**	**(8,549)**	**-**	**(8,549)**
At 31 December 2016 (Audited)	**757,690**	**(27,802)**	**148,662**	**38,090**	**50,727**	**25,711**	**2,648**	**(47,378)**	**218,460**	**(520,933)**	**427,415**

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

The notes 1 to 42 on pages 62 to 97 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

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

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

The notes 1 to 42 on pages 62 to 97 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

For the year ended 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

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

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

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

The notes 1 to 42 on pages 62 to 97 form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. INCORPORATION AND ACTIVITIES

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

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

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

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

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

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

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

The Group carries out its business activities through Ithmaar's head office, 18 commercial branches in Bahrain and its following principal subsidiary companies:

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

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES

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

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the year ended 31 December 2016 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 41.

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

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

(ia)New accounting standard: Issued and effective

FAS 27 - Investment accounts

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

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

There are no new AAOIFI accounting standards, amendments to standards and interpretations that are effective for the first time for the financial year beginning on or after 1 January 2017 that would be expected to have material impact on the Group.

(ii) Basis of preparation

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

(iii)Statement of compliance

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

(iv)Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(a) Basis of consolidation

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners equity.

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

Intra-Group balances and minority interest

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

(b) Foreign currency transactions and balances

Functional and presentation currency

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

Transactions and balances

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

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

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(b) Foreign currency transactions and balances (Continued)

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

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

(c) Accounting estimates and judgements

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

1. Classification of investments

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

2. Special purpose entities

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

3. Impairment on financing assets and investments

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

4. Liquidity mismatch

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

(d) Cash and cash equivalents

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(e) Murabaha and other financings

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

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

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

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

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

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

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

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

(g) Investments

1. Investments carried at amortised cost

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

2. Investments carried at fair value through equity

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

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

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

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(g) Investments (Continued)

2. Investments carried at fair value through equity (Continued)

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

3. Investments carried at fair value through income statement

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

4. Restricted investment accounts

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

5. Investment in real estate

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

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

6 Investment in mudaraba

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(g) Investments (Continued)

7 Fair value

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

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

(h) Assets acquired for leasing (Ijarah)

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

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

(i) Fixed assets

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

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

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

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

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

(j) Intangible assets

1. Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(j) Intangible assets (Continued)

1. Goodwill (Continued)

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

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

2. Computer software

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

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

3. Other acquired intangible assets

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

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

(k) Current taxation

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

(l) Deferred taxation

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

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

(m) Provision for staff benefits

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(m) Provision for staff benefits (Continued)

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction or by using the projected unit credit method as appropriate. Costs to be recognised under the projected unit credit method are estimated based on the advice of qualified actuaries. Actuarial gains and losses are spread over the average remaining service lives of the employees until the benefits become vested.

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

(n) Due to investors

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

(o) Equity of unrestricted investment accountholders

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

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

(p) Restricted investment accounts

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

(q) Treasury shares

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

(r) Statutory reserve

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

(s) Revenue recognition

1. Profit participation and management fees

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(s) Revenue recognition (Continued)

2. Profit on Murabaha and other financings

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

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

3. Income from assets acquired for leasing

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

4. Income from Mudaraba contracts

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

5. Profit on Musharaka contracts

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

6. Dividend income

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

7. Fees and commissions

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

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

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

(t) Profit allocation between group and investment accountholders

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

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

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

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

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

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

The movement in provisions is as follows:

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

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

5. MURABAHA AND OTHER FINANCINGS

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

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

The movement in provisions is as follow:

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

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

6. INVESTMENT IN MUDARABA

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

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

The movement in provisions is as follows:

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

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

7. INVESTMENT IN ASSOCIATES

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

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

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

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

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

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

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

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

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

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

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

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

7. INVESTMENT IN ASSOCIATES (Continued)

Summarised financial position of associates that have been equity accounted:

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

8. SUKUK AND INVESTMENT SECURITIES

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

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

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

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

Certain assets totalling $10.4 million (31 December 2015: $12.8 million) included above are held by third parties as nominee on behalf of the Group.

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

8. SUKUK AND INVESTMENT SECURITIES (Continued)

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

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

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

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

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

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

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

Investments measured at fair value

	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2016				
Investment securities at fair value through income statement				
Debt-type instruments	**-**	**16,606**	**-**	**16,606**
Equity securities		**-**	**-**	**-**
Investment securities at fair value through equity				
Equity securities	**52,342**	**-**	**158,338**	**210,680**
	52,342	**16,606**	**158,338**	**227,286**
At 31 December 2015				
Investment securities at fair value through income statement				
Debt-type instruments	-	61,837	-	61,837
Equity securities	4,417	-	-	4,417
Investment securities at fair value through equity				
Equity securities	44,795	-	153,078	197,873
	49,212	61,837	153,078	264,127

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

8. SUKUK AND INVESTMENT SECURITIES (Continued)

Reconciliation of Level 3 Items

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

9. RESTRICTED INVESTMENT ACCOUNTS

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

The movement in provisions is as follows:

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

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

10. ASSETS ACQUIRED FOR LEASING

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

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

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

11. INVESTMENT IN REAL ESTATE

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

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

Certain assets totalling $1.2 million (31 December 2015: $63.4 million) included above are held by third parties as nominee on behalf of the Group.

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

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

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12. OTHER ASSETS

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

The movement in provisions is as follows:

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

13. FIXED ASSETS

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

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

For the year ended 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

14. INTANGIBLE ASSETS

	Relating to owners									
	31 December 2016					31 December 2015				
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount	Cost	Accumulated amortisation	Provision for impairment	Exchange differences	Net book amount
Goodwill	**87,830**	**-**	**(8,500)**	**(9,231)**	**70,099**	87,830	-	(5,000)	(9,231)	73,599
Customer relations	**113,565**	**(55,966)**	**-**	**(10,604)**	**46,995**	113,565	(49,512)	-	(11,110)	52,943
Core deposits	**155,546**	**(80,696)**	**-**	**(20,324)**	**54,526**	155,546	(72,918)	-	(20,324)	62,304
Others	**29,312**	**(23,705)**	**-**	**-**	**5,607**	27,848	(21,124)	-	(219)	6,505
	386,253	**(160,367)**	**(8,500)**	**(40,159)**	**177,227**	384,789	(143,554)	(5,000)	(40,884)	195,351

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

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

	31 December 2016	31 December 2015
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	**62,570**	66,070
Faysal Bank Limited	**7,529**	7,529
	70,099	73,599

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

15. CUSTOMERS' CURRENT ACCOUNTS

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

16. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

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

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

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

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

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

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16. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS (Continued)

Cash dividends amounting to $14.6 million (31 December 2015: $11.1 million) on certain shares pledged as collateral was directly received by the lender (as per agreed terms and conditions) during the year and adjusted against the outstanding facility amount as per the agreed terms.

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

17. DUE TO INVESTORS

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

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

18. OTHER LIABILITIES

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

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

19. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

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

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

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

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

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

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

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

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

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

The average gross rate of return in respect of unrestricted investment accounts was 4.1% for 31 December 2016 (31 December 2015: 3.9%) of which 2.8% (31 December 2015: 2.7%) was distributed to the investors and the balance was either set aside as provisions, management fees (up to 1.5% of the total invested amount per annum to cover administration and other expenses related to the management of such funds) and/or retained by the Group as share of profits in its capacity as a Mudarib.

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

20. MINORITY INTEREST

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

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

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

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

21. SHARE CAPITAL

	Number of shares (thousands)	**Share capital**
Authorised	8,000,000	2,000,000
Issued and fully paid		
Total outstanding	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
At 31 December 2015 (Audited)	2,910,160	727,541
Issued and fully paid		
Total outstanding as at 1 January 2016	**3,030,755**	**757,690**
Treasury shares *	**(111,207)**	**(27,802)**
At 31 December 2016 (Audited)	**2,919,548**	**729,888**

Ithmaar's total issued and fully paid share capital at 31 December 2016 comprises 3,030,755,027 shares at $0.25 per share amounting to $757,688,757. The share capital of Ithmaar is denominated in United States Dollars and these shares are traded on Bahrain Bourse in United States dollars and on Boursa Kuwait in Kuwaiti Dinars.

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

*** Employee Share Incentive Scheme**

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

22. EARNINGS PER SHARE (BASIC & DILUTED)

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

	31 December 2016	31 December 2015
Net loss attributable to shareholders ($ '000)	**3,279**	(60,797)
Weighted average number of issued and fully paid up ordinary shares ('000)	**2,910,957**	2,910,160
Earnings per share (Basic & Diluted) - US Cents	**0.11**	(2.09)

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

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

23. INCOME FROM RESTRICTED INVESTMENT ACCOUNTS AS A MUDARIB

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

24. INCOME FROM MURABAHA AND OTHER FINANCINGS

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

25. INCOME FROM OTHER INVESTMENTS

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

26. OTHER INCOME

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

27. ADMINISTRATIVE AND GENERAL EXPENSES

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

28. SOCIAL RESPONSIBILITY

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

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

29. PROVISIONS

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

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

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

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

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

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

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

30. OVERSEAS TAXATION

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

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

Current tax receivable/(payable)

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

Deferred tax asset/(liability)

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

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31. SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail and Corporate banking, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.

(ii) Trading Portfolio, where the Group trades in equity deals, foreign exchange and other transactions with the objective of realizing short-term gains.

(iii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

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

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

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

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

32. ZAKAH

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

33. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

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

Commitments

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

34. CURRENCY RISK

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

	PKR	**EUR**	**USD**	**PLN**
As at 31 December 2016				
Total currency exposure	**92,594**	**86,265**	**237,998**	**37,921**
Reasonable shift	**2.79%**	**2.60%**	**0.21%**	**0.67%**
Total effect on income/equity	**2,583**	**2,243**	**500**	**254**
As at 31 December 2015				
Total currency exposure	92,346	73,227	57,854	41,298
Reasonable shift	4.03%	0.69%	0.88%	1.64%
Total effect on income/equity	3,722	505	509	677

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

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34. CURRENCY RISK (Continued)

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

31 December 2016	United States Dollar	Pakistan Rupee	Swiss Franc	Bahraini Dinar	Euro	UAE Dirham	Hong Kong Dollar	Other	Total
Cash and balances with banks and central banks	78,885	308,377	3,092	181,464	134,984	9,812	30	19,389	736,033
Commodity and other placements with banks, financial and other institutions	-	47,931	-	42,444	52,232	-	-	-	142,607
Murabaha and other financings	430,205	1,650,696	-	1,232,961	20,363	45,232	-	65,131	3,444,588
Musharaka financing	-	229,960	-	-	-	-	-	-	229,960
Investment in mudaraba	14,425	-	-	-	-	-	-	-	14,425
Investment in associates	-	977	-	587,062	-	-	74,588	5,776	668,403
Sukuk and investment securities	136,614	1,645,069	676	70,479	5,692	-	-	16,252	1,874,782
Restricted investment accounts	71,706	-	-	-	8,146	-	-	-	79,852
Assets acquired for leasing	12,816	-	-	243,388	-	-	-	-	256,204
Investment in real estate	4,862	10,352	43,325	146,133	-	-	-	37,922	242,594
Other assets	110,422	191,066	1,970	21,146	26,888	-	8	10,154	361,654
Fixed assets	4,006	53,784	36	55,149	6	-	-	-	112,981
Intangible assets	161,214	16,013		-	-	-	-	-	177,227
Total assets	**1,025,155**	**4,154,225**	**49,099**	**2,580,226**	**248,311**	**55,044**	**74,626**	**154,624**	**8,341,310**
Customer current accounts	99,432	973,779	-	285,732	205,785	1,133	-	15,252	1,581,113
Due to banks, financial and other institutions	147,534	507,142	-	52,194	93,061	341,564	-	18	1,141,513
Due to investors	109,812	1,767,703	-	-	8,557	-	-	17,540	1,903,612
Other liabilities	24,613	132,975	9,047	173,431	1,735	-	-	821	342,622
Total liabilities	**381,391**	**3,381,599**	**9,047**	**511,357**	**309,138**	**342,697**	**-**	**33,631**	**4,968,860**
Equity of unrestricted investment accountholders	454,347	311,231	-	1,978,678	25,438	-	-	-	2,769,694
Total liabilities and equity of unrestricted investment accountholders	**835,738**	**3,692,830**	**9,047**	**2,490,035**	**334,576**	**342,697**	**-**	**33,631**	**7,738,554**
Contingent liabilities and commitments	**832,301**	**1,544,133**	**20,028**	**525,477**	**47,807**	**4,645**	**-**	**48,480**	**3,022,871**
31 December 2015									
Total assets	1,087,874	4,003,092	49,107	2,379,827	310,266	62,411	75,141	170,923	8,138,641
Total liabilities and equity of unrestricted investment accountholders	731,505	3,586,435	10,441	2,457,810	383,493	340,609	-	36,507	7,546,800
Contingent liabilities and commitments	753,115	1,804,281	19,402	503,091	61,631	61,498	-	-	3,203,018

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

35. MATURITY PROFILE

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

31 December 2016	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	736,033	-	-	-	-	736,033
Commodity and other placements with banks, financial and other institutions	90,375	52,232	-	-	-	142,607
Murabaha and other financings	720,573	527,017	491,390	928,960	776,648	3,444,588
Musharaka financing	1,358	3,103	11,308	150,574	63,617	229,960
Investment in mudaraba	-	-	-	14,425	-	14,425
Investment in associates	-	-	-	-	668,403	668,403
Sukuk and investment securities	41,055	321,423	787,988	560,667	163,649	1,874,782
Restricted investment accounts	-	-	-	-	79,852	79,852
Assets acquired for leasing	3,390	15	3,345	10,528	238,926	256,204
Investment in real estate	-	-	-	177,269	65,325	242,594
Other assets	173,385	85,636	77,651	24,978	4	361,654
Fixed assets	92	43	4,682	8,602	99,562	112,981
Intangible assets	-	-	-	3,952	173,275	177,227
Total assets	1,766,261	989,469	1,376,364	1,879,955	2,329,261	8,341,310
Customer current accounts	1,581,113	-	-	-	-	1,581,113
Due to banks, financial and other institutions	796,693	108,226	64,859	166,001	5,734	1,141,513
Due to investors	1,123,321	302,420	465,355	12,037	479	1,903,612
Other liabilities	263,135	31,153	3,060	37,710	7,564	342,622
Total liabilities	3,764,262	441,799	533,274	215,748	13,777	4,968,860
Equity of unrestricted investment accountholders	1,215,986	313,601	914,482	325,625	-	2,769,694
Total liabilities and equity of unrestricted investment accountholders	4,980,248	755,400	1,447,756	541,373	13,777	7,738,554
Contingent liabilities and commitments	1,499,617	479,702	475,833	534,535	33,184	3,022,871
31 December 2015						
Total assets	1,754,565	1,025,966	1,290,679	1,805,711	2,261,720	8,138,641
Total liabilities and equity of unrestricted investment accountholders	5,012,926	567,599	1,274,485	663,364	28,426	7,546,800
Contingent liabilities and commitments	1,923,145	318,914	402,810	519,026	39,123	3,203,018

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36. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

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

31 December 2016	Banks and Financial Institutions	Trading and Manufacturing	Property and Construction	Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	736,033	-	-	-	-	-	-	736,033
Commodity and other placements with banks, financial and other institutions	142,607	-	-	-	-	-	-	142,607
Murabaha and other financings	815,539	725,440	109,020	96,971	1,172,859	257,011	267,748	3,444,588
Musharaka financing	47,034	75,890	36,071	27,080	38,020	2,361	3,504	229,960
Investment in mudaraba	-	-	14,425	-	-	-	-	14,425
Investment in associates	487,444	3,429	109,454	68,076	-	-	-	668,403
Sukuk and investment securities	1,696,963	80,179	33,719	19,433	-	-	44,488	1,874,782
Restricted investment accounts	-	-	79,852	-	-	-	-	79,852
Assets acquired for leasing	-	14,829	8,392	15	232,968	-	-	256,204
Investment in real estate	-	-	242,594	-	-	-	-	242,594
Other assets	170,016	59,093	46,315	31	31,418	-	54,781	361,654
Fixed assets	53,784	-	59,197	-	-	-	-	112,981
Intangible assets	177,227	-	-	-	-	-	-	177,227
Total assets	**4,326,647**	**958,860**	**739,039**	**211,606**	**1,475,265**	**259,372**	**370,521**	**8,341,310**
Customer current accounts	38,008	455,303	72,068	120,656	474,093	15,702	405,283	1,581,113
Due to banks, financial and other institutions	1,112,774	-	-	28,739	-	-	-	1,141,513
Due to investors	499,469	558,006	23,569	185,697	377,704	13,436	245,731	1,903,612
Other liabilities	119,551	31	45,796	319	56,029	-	120,896	342,622
Total liabilities	**1,769,802**	**1,013,340**	**141,433**	**335,411**	**907,826**	**29,138**	**771,910**	**4,968,860**
Equity of unrestricted investment accountholders	356,885	257,409	82,649	147,367	1,785,059	-	140,325	2,769,694
Total liabilities and equity of unrestricted investment accountholders	**2,126,687**	**1,270,749**	**224,082**	**482,778**	**2,692,885**	**29,138**	**912,235**	**7,738,554**
Contingent liabilities and commitments	**1,410,764**	**718,585**	**254,420**	**35,644**	**424,273**	**131,696**	**47,489**	**3,022,871**
31 December 2015								
Total assets	4,289,848	1,082,735	702,936	206,218	1,274,262	229,340	353,302	8,138,641
Total liabilities and equity of unrestricted investment accountholders	2,090,247	1,270,117	422,576	470,353	2,437,228	26,093	830,186	7,546,800
Contingent liabilities and commitments	1,721,880	792,934	255,345	24,631	321,594	30,831	55,803	3,203,018

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

31 December 2016	Asia / Pacific	Middle East	Europe	North America	Others	Total
Cash and balances with banks and central banks	367,858	226,643	87,556	53,976	-	736,033
Commodity and other placements with banks, financial and other institutions	47,931	94,676	-	-	-	142,607
Murabaha and other financings	1,684,028	1,421,623	233,313	-	105,624	3,444,588
Musharaka financing	229,960	-	-	-	-	229,960
Investment in mudaraba	-	-	-	14,425	-	14,425
Investment in associates	75,565	592,838	-	-	-	668,403
Sukuk and investment securities	1,656,198	209,096	5,529	3,959	-	1,874,782
Restricted investment accounts	-	79,852	-	-	-	79,852
Assets acquired for leasing	-	256,204	-	-	-	256,204
Investment in real estate	13,977	147,370	81,247	-	-	242,594
Other assets	182,923	131,277	37,015	10,429	10	361,654
Fixed assets	53,784	59,155	42	-	-	112,981
Intangible assets	16,013	161,214	-		-	177,227
Total assets	**4,328,237**	**3,379,948**	**444,702**	**82,789**	**105,634**	**8,341,310**
Customer current accounts	1,063,594	312,309	189,232	15,615	363	1,581,113
Due to banks, financial and other institutions	507,141	617,641	-	-	16,731	1,141,513
Due to investors	1,903,606	6	-	-	-	1,903,612
Other liabilities	133,725	198,070	9,843	984	-	342,622
Total liabilities	**3,608,066**	**1,128,026**	**199,075**	**16,599**	**17,094**	**4,968,860**
Equity of unrestricted investment accountholders	311,231	2,458,463	-	-	-	2,769,694
Total liabilities and equity of unrestricted investment accountholders	**3,919,297**	**3,586,489**	**199,075**	**16,599**	**17,094**	**7,738,554**
Contingent liabilities and commitments	**2,447,329**	**553,408**	**19,776**	**-**	**2,358**	**3,022,871**
31 December 2015						
Total assets	4,210,641	3,318,341	465,967	60,404	83,288	8,138,641
Total liabilities and equity of unrestricted investment accountholders	3,811,977	3,477,074	220,496	18,541	18,712	7,546,800
Contingent liabilities and commitments	2,641,074	538,736	20,883	-	2,325	3,203,018

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

37. RISK MANAGEMENT

Credit risk

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

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

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

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

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

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

37. RISK MANAGEMENT (Continued)

Profit rate risk

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

31 December 2016	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	263,556	-	-	-	-	472,477	736,033
Commodity and other placements with banks, financial and other institutions	90,336	52,271	-	-	-	-	142,607
Murabaha and other financings	426,768	689,826	584,607	1,031,302	712,085	-	3,444,588
Musharaka financing	15,040	1,665	11,308	52,696	149,251	-	229,960
Sukuk and investment securities	3,583	385,657	885,853	219,632	101,141	278,916	1,874,782
Assets acquired for leasing	-	456	4,543	2,184	249,021	-	256,204
Other assets	379	430	4,230	-	126	356,489	361,654
Total financial assets	**799,662**	**1,130,305**	**1,490,541**	**1,305,814**	**1,211,624**	**1,107,882**	**7,045,828**
Customer current accounts	-	-	-	-	-	1,581,113	1,581,113
Due to banks, financial and other institutions	720,142	129,807	244,655	41,999	4,910	-	1,141,513
Due to investors	437	312,348	516,661	461,756	612,410		1,903,612
Other liabilities	502	453	-	-	-	341,667	342,622
Total financial liabilities	**721,081**	**442,608**	**761,316**	**503,755**	**617,320**	**1,922,780**	**4,968,860**
Equity of unrestricted investment accountholders	1,239,370	256,731	821,782	451,811	-	-	2,769,694
Total financial liabilities and equity of unrestricted investment accountholders	**1,960,451**	**699,339**	**1,583,098**	**955,566**	**617,320**	**1,922,780**	**7,738,554**
Total repricing gap	**(1,160,789)**	**430,966**	**(92,557)**	**350,248**	**594,304**	**(814,898)**	**(692,726)**
31 December 2015							
Total financial assets	1,236,861	1,225,851	1,531,643	1,046,679	878,375	899,612	6,819,021
Total financial liabilities and equity of unrestricted investment accountholders	2,466,794	447,826	2,432,003	426,070	25,528	1,748,579	7,546,800
Total repricing gap	(1,229,933)	778,025	(900,360)	620,609	852,847	(848,967)	(727,779)

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

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

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

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37. RISK MANAGEMENT (Continued)

Price risk

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

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

38. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related parties include:

(a) Directors and major shareholders of Ithmaar and companies in which they have an ownership interest.

(b) Corporate, whose ownership and management is common with Ithmaar.

(c) DMIT and companies in which DMIT has ownership interest and subsidiaries of such companies.

(d) Associated companies of Ithmaar.

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

Significant balances with related parties comprise:

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

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

38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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

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

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

39. CAPITAL MANAGEMENT

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

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

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

	31 December 2016	31 December 2015
Tier 1	**573,916**	549,288
Tier 2	**67,623**	50,574
Total Capital Base	**641,539**	599,862
Total Risk-Weighted Exposures	**4,926,634**	4,682,072
Capital Adequacy Ratio	**13.02%**	12.81%

40. PROPOSED DIVIDEND

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

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41. NON-SHARIA COMPLIANT INCOME AND EXPENSES

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

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

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

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

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 146 (2015: 68 branches) out of total 354 branches (2015: 279 branches).

42. COMPARATIVES

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

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1. Background

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain (CBB) requirements outlined in its Public Disclosure Module (PD), CBB Rule Book, Volume II for Islamic Banks. The disclosures in this report are in addition to the disclosures set out in the Group's consolidated financial statements for the year ended 31 December 2016, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). These disclosures include additional information complying with Capital Adequacy (CA) Module effective from 1 January 2015 in accordance with Basel III disclosure requirements.

2. Basel III Framework

CBB has issued Basel III guidelines for the implementation of Basel III capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel III framework provides a risk based approach for calculation of regulatory capital. The Basel III framework is expected to strengthen the risk management practices across the financial institutions; and

The Basel III framework is based on three pillars as follows:-

- **Pillar I**: Minimum capital requirements including calculation of the capital adequacy ratio
- **Pillar II**: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- **Pillar III**: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Capital management

Ithmaar Holding B.S.C (formerly Ithmaar Bank B.S.C.) (Ithmaar) capital management policy provides guidelines to ensure that it meets the capital requirements as mandated by the CBB and is able to estimate an appropriate capital level in order to support its business growth. Capital management also ensures that shareholders' value is protected and enhanced.

Regulatory capital is the minimum capital that is required by regulatory authority, to be maintained by Ithmaar commensurate to the underlying risks. Ithmaar has adopted the capital charge computations and adequacy ratios as per Basel III guidelines, and CBB Capital Adequacy regulations & directives.

Capital management is a coordinated effort by the Business, Risk Management, and Financial Control departments and is a part of a broader Internal Capital Adequacy Assessment Process (ICAAP). ICAAP covers the capital charge for all material risks in Pillar 1 and Pillar 2. ICAAP also recommends an internal capital adequacy ratio target over and above the regulatory requirement to absorb any un-expected losses arising due to Pillar 2 risks. The adequacy and sufficiency of capital ratio is also tested with a mechanism of stress scenario across various risk dimensions on a periodical basis. A comprehensive risk assessment of the Business and Budget Plans is independently performed by the Risk Management Department (RMD), which among others, assesses the capital requirement of Ithmaar both for current and future activities under normal and stressed scenarios. Ithmaar's capital position is monitored on a regular basis and reported to the Asset Liability Management Committee (ALCO), the Audit and Governance Committee, the Board Risk Management Committee, and the Board.

Capital Adequacy Methodology:

As per the requirements of CBB's Basel III capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the Financial Institutions subsidiaries within the Group with the exception of Ithmaar's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel III compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under CA module of CBB rulebook.
- All significant investments in commercial entities are risk weighted if these are within 15% of the capital base at individual level and 60% at aggregate level. Any exposure over and above the threshold of 15% are risk weighted at 800%.
- All exposures exceeding the large exposure limit as per Credit Risk Management (CM) module of CBB rulebook are risk weighted 800%.

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4. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel III guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. Consolidated Capital Structure for capital adequacy purpose

A. Tier 1 Capital	
Common Equity Tier 1 (CET 1)	
Issued and fully paid-up ordinary capital	**757,690**
Reserves	
General reserves	56,725
Statutory reserve	38,090
Share premium	148,584
Accumulated losses	(527,170)
Negative adjustment due to aggregation	(22,329)
Losses resulting from converting foreign currency to the parent currency	(51,751)
Unrealized gains from fair valuing equities	34,363
Total Common Equity Tier 1 (CET1) prior to regulatory adjustments	**434,202**
Less: Investments in own shares	(27,801)
Total CET1a Capital	406,401
Positive Adjustments due to Aggregation CET1	167,515
Total CET 1d Capital	**573,916**
B. Other Capital (Tier 2 Capital)	
General provision	**28,915**
Positive Adjustments due to Aggregation of Tier 2 Capital	**38,708**
Total Tier 2 capital	**67,623**
C. Total Capital for CaR purpose	**641,539**
Less: financial reporting adjustments	(38,783)
Total equity	**602,756**
Total Assets	
Cash	31,464
Claims on sovereign	224,705
Claims on banks	266,555
Claims on corporate portfolio	1,141,988
Investments in equity securities	883,431
Holding of real estate	257,404
Regulatory retail portfolio	1,191,116
Past due facilities	175,102
Other assets	184,115
Aggregation & commercial entities	3,985,430
Total Assets	**8,341,310**

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6. Tier one capital ratios and Total capital ratios

	Tier One Capital Ratio	Total Capital Ratio
Ithmaar consolidated	11.65%	13.02%
Significant Bank subsidiaries whose regulatory capital		
amounts to over 5% of group consolidated regulatory capital		
whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	12.77%	14.62%

7. Group Structure

For the purpose of calculation of consolidated capital adequacy ratio under Basel III, line by line consolidation is performed for the risk exposures and eligible capital of all the Financial subsidiaries within the Group except for the following:

Subsidiary	Country of Incorporation	Ownership	Approach
Faysal Bank Limited	Pakistan	66.6 per cent	Full

8. Risk Management

8.1 Risk Management Objectives

Risk is an integral part of Ithmaar's business and managing it is critical to Ithmaar's continuing success and profitability. The essence of effective risk management is to enhance Shareholders' and Investment Account Holders' value through business profits commensurate with the risk appetite of Ithmaar and seeks to minimize the potential adverse effects on its financial performance. Ithmaar has over the years, developed risk management into a core competency and remains well positioned to meet imminent challenges. Risk Management at Ithmaar has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

Ithmaar has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. Ithmaar's risk management framework is based on guidelines issued by the Central Bank of Bahrain (CBB), sound principles of risk management issued by Bank for International Settlements and international best practices, wherever applicable.

8.2 Strategies, Processes and Internal Controls

8.2.1 Risk Management Strategy

Ithmaar's Risk Management Charter lays the foundation for a risk governance structure in Ithmaar. The risk strategy in terms of the overall risk appetite, risk tolerance levels and risk management methodologies are assimilated in the various risk policies and the Internal Capital Adequacy Assessment Process (ICAAP) report of Ithmaar which are reviewed and approved by the Board of Directors. The risk strategy of Ithmaar is reviewed annually in line with Ithmaar's business strategy. The Board also oversees the establishment and implementation of risk management systems and policies for all processes and risk exposure of Ithmaar.

The process of risk management is carried out by an independent control function; the Risk Management Department (RMD) headed by the Chief Risk Officer with a direct reporting line to the Board Risk Management Committee (RMC). The Department is mandated with identifying, quantifying and assessing all risks and recommending appropriate prudential limits and risk management methodologies within the parameters of the overall risk management strategy approved by the Board.

A well-defined governance structure is implemented where authority levels are clearly laid down for manual and system based transactions. Furthermore, the culture of Risk is embedded in the Business through a rigorous set of controls, checks and balances. As part of Ithmaar's continuous improvement initiatives, Ithmaar reviews existing risk policies and procedures by benchmarking the same to changes in the regulatory and external environment.

8. Risk Management (Continued)

8.2 Strategies, Processes and Internal Controls (Continued)

8.2.2 Equity Risk in Banking Book

Ithmaar's exposure to equity risk in the Banking book are relating to its investment exposures. Ithmaar has a dedicated Asset Management Department for managing the existing investments. The Board has established an Asset Management Policy which establishes the guidelines relating to management of investments.

All investment exposures are reviewed annually and presented to the management or Board level committees depending on the asset value.

8.2.3 Material Transactions- Board Approval

The Board approved Business Discretionary Powers policy establishes the approval authorities for investments based on its value. All financing and investment exposures above a defined value require the Board's approval. Additionally all strategic investments irrespective of their value require the approval of the Board.

8.3 Risk Measurement and Reporting System

The risk appetite of Ithmaar is approved by the Board. To enable the effective monitoring of the activities of Ithmaar to be compliant with the risk appetite approved by the Board, appropriate measurement processes, monitoring of exposures vis-à-vis limits as provided in the various risk management policies of Ithmaar is in place. The risk policies of Ithmaar set guidelines to limit concentration risk within the portfolio by large exposure, connected counterparty, country, industry, tenor and products. Ithmaar uses a robust management information system to monitor its exposures and concentrations by various dimensions. Exceptions to the limits as provided in the policies are escalated to the appropriate authority.

8.4 Credit Risk

Capital charge for credit risk is computed under the Standardized Approach.

8.4.1 Credit Risk Management Structure

Credit risk management structure in Ithmaar includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of Credit risk management processes in Ithmaar.

Ithmaar has a well-defined organizational structure with clearly articulated roles and responsibilities for the Credit risk management function in Ithmaar.

Ithmaar has proper processes in place, not only to apprise but also regularly monitor credit risk. Ithmaar has established a General Financing Policy which details the core business principles, which are central to the Ithmaar's Credit culture, as well as general guidelines for permitted and restricted transactions. The policy states the Credit assessment methodology and the detailed standards for documentation of client information.

Ithmaar manages its credit risk arising from its banking exposures by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks.

8.4.1.1 Corporate credit risk (including financial institutions)

Corporate credit risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of the credit facility. Corporate credit risk is managed by proper assessment of risks inherent in an individual credit proposal and also ongoing review of the corporate credit portfolio to ensure its compliance to the credit risk appetite of Ithmaar. In addition to the rigorous credit analysis, the covenants for each facility are strictly monitored by the Credit Administration Department.

8. Risk Management (Continued)

8.4 Credit Risk (Continued)

8.4.1.1 Corporate credit risk (including financial institutions) (Continued)

Ithmaar has proper processes in place, not only to apprise but also regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which includes obtaining collateral, assignment of receivables and counter-guarantees. The corporate accounts are rated on a credit risk rating model, this enhances the process of credit review and ensures timely identification of any deterioration of the corporate's status and corrective actions can be implemented. The credit risk rating model incorporates both quantitative and qualitative risk parameters for the grading and classification of corporate customers.

A centralized credit risk management system is in place where all corporate credit proposals are independently reviewed by the RMD before the same are approved by appropriate approval authorities.

All credits exposures are at least reviewed and rated annually and appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability.

8.4.1.2 Retail credit risk

Retail credit is offered to customers primarily based on approved product programs which define the risk acceptance criteria. Overdue amounts in the retail credit portfolio are closely monitored to arrest the individual accounts from slipping into non-performing status. The retail credit product programs are regularly reviewed to ensure their compliance with existing regulatory guidelines and enhance marketability. In all its initiatives, the interest of the customer is accorded as Top Priority.

The retail credit portfolio is reviewed at monthly intervals.

FUM assets

The Funds under Management Policy of Ithmaar provides detailed guidelines for the assets suitable for funding by unrestricted investment accounts, it clearly provides that the funds in unrestricted investment account will be used for funding low risk assets.

8.4.2 Concentration Risk

The risk policies of Ithmaar set guidelines to limit concentration risk within the portfolio by large exposure, connected counterparty, country, industry, tenor and products. Ithmaar uses a robust management information system to monitor its exposures and concentrations by various dimensions. A Limit Management Policy is in place, this policy provides guidelines on the threshold limits. As per CBBs single obligor regulations, banks incorporated in Bahrain are required to obtain CBB's prior approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

8.4.3 Credit Portfolio Management

Portfolio management is an integral part of the credit process that enables Ithmaar to limit concentrations, reduce volatility, increase liquidity and achieve optimum earnings. It does so by incorporating portfolio strategy and planning, performance assessment and reporting functions into one comprehensive management process. Risk Management Department of Ithmaar is responsible for carrying out the activities in relation to credit risk portfolio management in coordination with business and support departments. Risk Management Department seeks information from different business units and Financial Control Division on a regular basis to perform this function. Risk Management Department undertakes the review, monitoring and control of limits structures based on the portfolio diversification parameters.

8.4.4 Country Exposure

The Limits Management Policy of Ithmaar provides exposure limits for countries; the limits are based on the ratings assigned to the country by the External Credit Assessment Institutions (ECAIs). Exposure vis-à-vis limits assigned to the countries are monitored on an on-going basis and status thereof is submitted to the Board Risk Management Committee at quarterly intervals.

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8. Risk Management (Continued)

8.4 Credit Risk (Continued)

8.4.5 Credit Risk Mitigation

Ithmaar uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While the existence of collaterals is not a precondition for credit, exposures are fully or partially collateralized as a second line of defense. Ithmaar has in place a Credit Risk Mitigation policy which provides guidelines on the types of assets that may be accepted as collateral and the methodology of valuation of these assets. In general, all collaterals are valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

Ithmaar's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. Ithmaar prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued. Third party guarantees are accepted as collateral only after analyzing the financial strength of the guarantors.

The following types of collateral are accepted by Ithmaar:

- Primary Collaterals
- Collateral Support

Primary Collaterals constituting assets of the type Real Estate properties, fixed charge over Moveable properties and Cash Collaterals are required to meet the following essential conditions:

- It is a tangible or an intangible (financial) asset;
- A ready secondary market is easily identifiable;
- A monetary-value can be easily attached to the asset;
- Can be easily converted into cash without incurring additional costs (such as dismantling costs);
- Can be legally assigned or mortgaged to Ithmaar within applicable laws; and
- Ithmaar can maintain unquestionable control over the asset.

Collateral Support are assets that do not meet the essential conditions stipulated in Primary Collaterals above. These assets may be accepted by Ithmaar as means to control the counterparty's exposure rather than basing credit decisions on their values.

8.4.5 Credit Risk Mitigation

These following assets are considered as Collateral Support:

- Pledge or mortgage of saleable goods or plant and machinery provided the charge can be legally registered;
- Fixed charge over moveable assets, not legally registered or difficult to reasonably value;
- Second charge on real estate properties and moveable assets.
- Pledge of unlisted securities such as shares, bonds and debentures;
- Registered assignment of life insurance endowment policies - to the extent of cash surrender-value;
- Third-party or Corporate guarantees issued by individuals / institutions other than banks;
- Assignment of contract proceeds, lease, or rent;
- Investments in Restricted Investment Accounts managed by Ithmaar other than those already obtained as collateral against existing exposures.

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8. Risk Management (Continued)

8.4 Credit Risk (Continued)

8.4.5.1 Collateral valuation

Collaterals when taken are identified as having reasonable value, their value would however change over a period of time due to prevailing economic conditions, plant and machinery becoming obsolete due to technological advancements, due to passage of time and due to increase in availability of similar collateralized securities. Listed securities are valued at monthly intervals, unlisted securities are valued at annual intervals, Real estate properties are valued at once in two years' intervals, and special assets of the nature of marine vessels and aircrafts are valued at annual intervals. Value of collaterals are accounted post assigning various levels of haircuts on the type of collateral, the same are provided in the Credit Risk Mitigation Policy of Ithmaar.

8.4.5.2 Guarantees

Guarantees are taken from individuals and Corporates. In cases where a letter of guarantee from the counterparty's parent company or from a third party is offered as credit risk mitigant, it is ensured that the guarantees must be irrevocable and unconditional, If the guarantor is located outside Bahrain, legal opinion is obtained from a legal counsel domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee, further the financial position of the guarantor is adequately analyzed to determine the value and viability of the guarantee.

8.4.5.3 Collateral Concentration

Ithmaar has established internal limits to avoid over concentration on certain class of collaterals. Prudent maximum limits have been set for the acceptance of collaterals as credit risk mitigation.

8.4.5.4 Collateral Management

Documents related to collaterals provided to Ithmaar is managed by the Credit Administration department. Appropriate policies and procedures are in place for the management of the collateral, in respect of valuation, maintenance of the original documents, temporary release and permanent release of such collaterals. MIS supporting the management of the collateral is in place.

8.4.6 Classification of credit exposures

Ithmaar has in place a detailed policy for Classification Provisioning and Write-Off, this policy provides detailed guidelines for classification and provisions of credit facilities.

All credit exposures are classified as past due and impaired when any instalment is not paid over a 90-day period. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability. Accounts with past dues over a 90 days' period are classified into categories Sub-Standard, Doubtful and Loss assets. Appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. In respect of General Provision, the same is provided on non-classified accounts, as per the provisions of the CBB guidelines. Ithmaar follows, except the subsidiary entities which may follow their own regulatory guidelines, a time-based criteria of past due days to estimate the specific provisioning requirements, and past due accounts are reviewed periodically.

8.4.7 Counterparty Credit Risk

Counterparty is defined as an individual, legal entity, guarantor being financed by Ithmaar. Definition also includes Issuer of securities held by Ithmaar. Bank had adopted the Standardized Approach to allocate capital for counterparty credit risk. Credit Risk Mitigation Policy of Ithmaar provides guidelines for securing the exposures to Counterparties. Limits for Connected Counter parties of Ithmaar and Country and Industry limits are also in place. In case of deterioration in the counterparty's credit rating, additional collateral maybe called for or the exposure to the counterparty is reduced. The Classification, Provisioning and Write-off Policy provides detailed guidelines for classification and provisioning for exposures to counterparty's which are classified.

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8. Risk Management (Continued)

8.4 Credit Risk (Continued)

8.4.8 ECAI Ratings

Ithmaar has subscribed to the CBB guidelines for the utilization of external ratings, where available, by External Credit Assessment Institutions (ECAI) for the purpose of risk assessment. In case multiple ECAI ratings are available for a single counterparty, the lowest of them is taken to assign the relevant risk category. Ithmaar complies with all the qualitative requirements stipulated by the CBB for the recognition process and eligibility criteria of ECAI rating in the Credit Risk Management policy of Ithmaar. ECAI ratings are applied, where applicable, to all credit and investment exposures.

8.4.9 Related party transactions

Business transactions with persons and companies connected with Ithmaar (which include, among others, Directors, their immediate family members, major shareholders, associates and subsidiaries) are termed as Related Party Transactions. For avoidance of any possibility of conflicts of interest, these transactions are approved by the Board of Directors with the interested party abstaining from voting. Ithmaar complies with relevant rules issued by the regulatory authorities in this respect and all transactions are appropriately disclosed in the consolidated financial statements.

9. Disclosure of the regulatory capital requirements for credit risk under standardized approach

Exposure funded by Self Finance

	Risk weighted assets	Capital requirement
Cash	59,991	7,499
Claims on banks	95,624	11,953
Claims on corporate portfolio	38,291	4,786
Investments in equity securities	1,046,669	130,834
Holding of real estate	474,566	59,321
Regulatory retail portfolio	1,380	173
Past due facilities	55,266	6,908
Other assets	189,470	23,684
Aggregation	1,583,775	197,972
Total	**3,541,677**	**442,710**

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Claims on corporate portfolio	269,349	33,669
Equity portfolio	12,935	1,617
Holding of real estate	25,419	3,177
Regulatory retail portfolio	267,533	33,442
Past due facilities	47,896	5,987
Total	**623,132**	**77,892**

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10. Gross credit exposures

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with banks and central banks	736,033	663,221
Commodity and other placements with banks, financial and other institutions	142,607	206,714
Murabaha and other financings	3,444,588	3,422,179
Musharaka financing	229,960	189,817
Investments	3,136,260	3,118,526
Other assets	361,654	340,546
Fixed assets	112,981	112,685
Intangible assets	177,227	186,289
Total on balance sheet credit exposure	**8,341,310**	**8,239,977**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit, acceptance and endorsements	819,458	825,699
Financing commitments, Undrawn facilities and other credit related liabilities	2,203,413	2,287,246
Total off balance sheet credit exposure	**3,022,871**	**3,112,945**
Total credit exposure	**11,364,181**	**11,352,922**
Total credit exposure financed by URIA	**2,865,342**	**2,663,543**
Total credit exposure financed by URIA (%)	**25.21%**	**23.46%**

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2016.

11. Geographical distribution of credit exposures

	Asia/ Pacific	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash and balances with banks and central banks	367,858	226,643	87,556	53,976	-	736,033
Commodity and other placements with banks, financial and other institutions	47,931	94,676	-	-	-	142,607
Murabaha and other financings	1,684,028	1,421,623	233,313	-	105,624	3,444,588
Musharaka financing	229,960	-	-	-	-	229,960
Investments	1,745,740	1,285,360	86,776	18,384	-	3,136,260
Other assets	182,923	131,277	37,015	10,429	10	361,654
Fixed assets	53,784	59,155	42	-	-	112,981
Intangible assets	16,013	161,214	-		-	177,227
Total on balance sheet items	**4,328,237**	**3,379,948**	**444,702**	**82,789**	**105,634**	**8,341,310**
Off balance sheet items	**2,447,329**	**553,408**	**19,776**	**-**	**2,358**	**3,022,871**
Total credit exposure	**6,775,566**	**3,933,356**	**464,478**	**82,789**	**107,992**	**11,364,181**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

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12. Industrial distribution of credit exposures

	Government Banks and financial institutions	Trading and manufacturing	Property and construction	Services	Private Individuals	Textile	Others	Total
On-balance sheet items								
Cash and balances with banks and central banks	736,033	-	-	-	-	-	-	736,033
Commodity and other placements with banks, financial and other institutions	142,607	-	-	-	-	-	-	142,607
Murabaha and other financings	815,539	725,440	109,020	96,971	1,172,859	257,011	267,748	3,444,588
Musharaka financing	47,034	75,890	36,071	27,080	38,020	2,361	3,504	229,960
Investments	2,184,407	98,437	488,436	87,524	232,968	-	44,488	3,136,260
Other assets	170,016	59,093	46,315	31	31,418	-	54,781	361,654
Fixed assets	53,784	-	59,197	-	-	-	-	112,981
Intangible assets	177,227	-	-	-	-	-	-	177,227
Total on balance sheet items	**4,326,647**	**958,860**	**739,039**	**211,606**	**1,475,265**	**259,372**	**370,521**	**8,341,310**
Off balance sheet items	**1,410,764**	**718,585**	**254,420**	**35,644**	**424,273**	**131,696**	**47,489**	**3,022,871**
Total credit exposure	**5,737,411**	**1,677,445**	**993,459**	**247,250**	**1,899,538**	**391,068**	**418,010**	**11,364,181**

13. Maturity breakdown of credit exposures

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash and balances with banks and central banks	736,033	-	-	-	-	-	-	736,033
Commodity and other placements with banks, financial and other institutions	90,375	52,232	-	-	-	-	-	142,607
Murabaha and other financings	720,573	527,017	491,390	928,960	717,865	58,783	-	3,444,588
Musharaka financing	1,358	3,103	11,308	150,574	56,326	7,291	-	229,960
Investments	44,445	321,438	791,333	762,889	182,549	192,263	841,343	3,136,260
Other assets	173,385	85,636	77,651	24,978	4	-	-	361,654
Fixed assets	92	43	4,682	8,602	11,291	40,371	47,900	112,981
Intangible assets	-	-	-	3,952	13,763	88,522	70,990	177,227
Total on balance sheet items	**1,766,261**	**989,469**	**1,376,364**	**1,879,955**	**981,798**	**387,230**	**960,233**	**8,341,310**
Off balance sheet items	**1,499,617**	**479,702**	**475,833**	**534,535**	**33,184**	**-**	**-**	**3,022,871**
Total credit exposure	**3,265,878**	**1,469,171**	**1,852,197**	**2,414,490**	**1,014,982**	**387,230**	**960,233**	**11,364,181**

14. Related-party balances under credit exposure

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2016 are as follows:

Affiliated companies	445,998
Directors & key management	12,946
Total	**458,944**

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15. Past due and impaired financings and related provisions for impairment

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	210,215	186,920	23,295
Agriculture	17,989	8,613	9,376
Construction	53,623	10,523	43,100
Finance	7,909	947	6,962
Trade	121,920	59,483	62,437
Personal	66,576	16,727	49,849
Credit cards	3,013	2,798	215
Real estate	14,223	11,018	3,205
Other sectors	5,674	1,780	3,894
Total	**501,142**	**298,809**	**202,333**
Ageing analysis			
Over 3 months up to 1 year	42,260	6,995	35,265
Over 1 year up to 3 years	57,281	13,239	44,042
Over 3 years	401,601	278,575	123,026
Total	**501,142**	**298,809**	**202,333**

Movement in specific impairment provisions	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January 2016	**293,496**	**53,069**	**346,565**
Charge for the year	23,980	5,550	29,530
Write back during the year	(13,042)	-	(13,042)
Utilized during the year	(34,207)	(36,889)	(71,096)
Exchange differences and other movements	6,852	-	6,852
At 31 December 2016	**277,079**	**21,730**	**298,809**

16. Past due and impaired financings by geographical areas

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia / Pacific	343,618	269,959	73,659
Middle East	157,524	28,850	128,674
Total	**501,142**	**298,809**	**202,333**

17. Details of credit facilities outstanding that have been restructured during the year ended December 2016

Restructured financings during the year ended December 20aggregated to $19.1 million. This restructuring had an impact of $1.8 million on present earnings during the year ended December 201Further, this restructuring is expected to have positive impact of $2.3 million on the Group's future earnings. Extension of maturity dates was the basic nature of concession given to all the restructured facilities.

At 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

18. Credit exposures which are covered by eligible financial collateral

Exposure funded by Self Finance

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	1,220,742	192,115
Regulatory retail portfolio	299,877	35,065
Public sector entities	36,599	168
Past due financings	97,829	6,938
Total	**1,655,047**	**234,286**

Exposure funded by Unrestricted Investment Accounts

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	960,106	62,276
Retail Portfolio	1,189,130	93
Past due financings	127,180	14,243
Total	**2,276,416**	**76,612**

Counterparty Credit Risk (CCR)

	Gross Positive Fair Value of Contracts	Netting Benefit	Credit Risk Mitigation	Net Value Exposure at Default	Risk Weighted Assets
Profit Rate Contracts	126	-	-	126	126
Foreign Exchange Contracts	4,248	-	-	4,248	2,476
Total	**4,374**	**-**	**-**	**4,374**	**2,602**

19. Market Risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

The Market Risk Management Policy of Ithmaar address all aspects of market risk. Implementation of the policy, procedures and monitoring of regulatory and internal limits for Ithmaar is the responsibility of the relevant business units with oversight by the Asset-Liability Committee (ALCO) and the Board Risk Management Committee.

The capital charge for market risk is computed as per the standardized approach.

19.1 The key market risk factors that Ithmaar is exposed to are discussed below

19.1.1 Foreign exchange risk:

Foreign exchange risk is the risk that the foreign currency positions taken by Ithmaar may be adversely affected due to volatility in foreign exchange rates. The responsibility for management of foreign exchange risk rests with the Treasury Department of Ithmaar. Foreign exchange risk management in Ithmaar is ensured through regular measurement and monitoring of open foreign exchange positions. The foreign exchange transactions carried out by Ithmaar are on behalf of customers and are on a back-to-back basis.

19. Market Risk (Continued)

19.1 The key market risk factors that Ithmaar is exposed to are discussed below (Continued)

19.1.2 Profit rate risk:

Profit rate risk is the risk that Ithmaar will incur a financial loss as a result of mismatch in the profit rate on the assets, investment account holders and customer liabilities. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders, therefore, Ithmaar is not subject to any significant profit rate risk. However, the profit sharing arrangements will result in displaced commercial risk when Ithmaar's results do not allow Ithmaar to distribute profits in line with the market rates.

19.1.3 Price risk:

Investment price risk is the risk of reduction in the market value of Ithmaar's portfolio as a result of diminution in the market value of individual investment.

19.1.4 Commodity risk:

Ithmaar does not have exposure to the commodity market.

19.2 Market risk management strategy

The market risk strategy of Ithmaar is approved by the Board and amendments to the policies are approved by the Board. The senior management of Ithmaar is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

Strategies for market risk management includes:

1. Ithmaar will comply with the provisions of the market risk strategy while assuming any market risk exposures.
2. A limit structure will be established to monitor and control the market risk in its portfolio.
3. Each new product/process is reviewed to manage the market risk.
4. Appropriate measurement techniques are in place to proactively measure and monitor market risk.
5. Stress testing is conducted regularly to assess the impact of changes in the market variables.
6. Sufficient capital will be held at all times to meet the capital requirements in line with CBB Basel III Pillar I requirements.

19.3 Market risk management strategy

The various techniques used by Ithmaar for the purposes of measuring and monitoring of market risk are as follows:

- Overnight open positions
- Profit rate gap analysis
- Earnings at Risk
- Economic Value

Risk Management department of Ithmaar monitors the positions vis-à-vis the limits approved by the Board.

19.4 Limits monitoring

Regulatory/In-House Policy Limits and guidelines as approved by the Board are strictly adhered to, deviations if any are immediately escalated and action taken wherever necessary.

At 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

19. Market Risk (Continued)

19.5 Portfolio review process

As part of the risk review process, Risk Management Department monitors Ithmaar's overall exposure to market risk. Reports of such review is submitted to the Senior Management and the Board Risk Management Committee.

19.6 Management Information System

Reports on market risk are a calendar item at the meetings of the Board Risk Management Committee. The reports provide Ithmaar's Senior Management and the sub-committee of the Board an update on the market risk exposure in the books of Ithmaar.

19.7 Stress Testing

Ithmaar employs four categories of stress testing, profit rates, foreign exchange rates, equity prices and Sukuk prices. For each category the worst possible shocks that might realistically occur in the market are considered for stress testing.

20. Disclosure of regulatory capital requirements for market risk under the standardized approach

	Risk weighted assets			Capital requirement		
	31 December 2016	Maximum Value	Minimum Value	31 December 2016	Maximum Value	Minimum Value
Foreign exchange risk	116,412	124,735	116,412	14,552	15,592	14,552
Aggregation						
Foreign exchange risk	445	8,470	3,519	56	1,059	440
Profit Rate Risk (Trading Book)	121,971	158,660	91,708	15,246	19,833	11,464
Equity Position Risk	73,049	64,480	67,436	9,131	8,060	8,430
Total	**311,877**	**356,345**	**279,075**	**38,985**	**44,543**	**34,884**

21. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars and Pakistani Rupee. Bahraini Dinars and Saudi Riyal are pegged to US Dollars and as such currency risk is minimal

The significant net foreign currency positions at 31 December 2016 were as follows:

	Long/(Short)
Pakistani Rupee	92,594
Euro	(86,265)
United States Dollars	(237,998)
Polish Zloty	37,921
UAE Dirham	(287,653)
Hong Kong Dollar	74,626

22. Equity position in Banking book

At 31 December 2016, the Group's sukuk and investment securities aggregated to $1,858.2 million. Out of the total investment securities, $121.2 million were listed investment securities and the remaining $1,737 million represented unlisted investment securities.

Cumulative realized income from sale of investment securities during the year ended 31 December 2016 amounted to $2.3 million. Total unrealized loss recognized in the consolidated statement of changes in owners' equity amounted to $18.2 million.

At 31 December 2016, capital requirements using standardized approach aggregated to $59 million for listed investment securities and $84 million for unlisted investment securities after aggregation/pro-rata aggregation of investments in Banking and other financial entities.

At 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

23. Profit Rate Risk in the Banking Book

Profit rate risk in Ithmaar's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet resulting from the impact of changes in profit rates on mismatched maturity and repricing assets and liabilities in the banking book.

23.1. Following are the sources of profit rate risk:

- Maturity mismatch: The non-alignment of maturities/revaluation dates of assets and liabilities gives rise to profit rate risk. In the case of fixed profit rates, maturities are considered whereas for floating or variable profit rates the revaluation/rollover dates are considered.
- Basis value risk: Assets and liabilities with similar maturities/revaluation dates and highly, though imperfectly, correlated profit rate benchmarks (USD-LIBOR and BIBOR) are exposed to basis risk.
- Profit rate curve risk: Changes to the values, slope and shape of the profit rate curve that impact the assets and liabilities of Ithmaar in a dissimilar manner gives rise to profit rate risk.
- Risk of counterparty's options underlying assets: The availability of options, with Ithmaar's counterparties, to make prepayments or early withdrawals can leave Ithmaar with excess or deficit funds that need to be invested or funded again at unknown profit rates.

23.2. Profit rate risk strategy

The Board of Ithmaar approves and reviews the profit rate risk strategy and amendments to the profit rate risk policies. The Senior management of Ithmaar is responsible for implementing the profit rate risk strategy approved by the Board. As a strategy the following measures are initiated:

- Strive to maintain appropriate spread between cost of funds and yield on financing
- Reduce the maturity/repricing mismatch between assets and liabilities
- Review the profit rate offered on liabilities products to remain competitive in the market
- Identify profit rate sensitive products Ithmaar wishes to engage in

23.3. Measurement of profit rate risk

Ithmaar has adopted the following methods for profit rate risk measurement in the banking book:

- Re-pricing gap analysis: measures the gap between the Rate Sensitive Assets (RSAs) and Rate Sensitive Liabilities (RSLs)
- Economic value of equity (EVE) – Duration Gap: This measures the loss in value of the portfolio due a small change in profit rates. Ithmaar will adopt EVE measure using duration (weighted-average term to- maturity of the security's cash-flows) estimates for various time bands. Assumptions for the computation of economic value are subscribed from Basel II guidelines and international best practices.
- Income Effect - Earnings-at-risk (EaR): Earnings perspective involves analyzing the impact of changes in profit rates on accrual or reported earnings in the near term. In the earnings perspective, the focus of analysis is the impact of changes in profit rates on accrual or reported earnings. Ithmaar also performs a stress testing of the impact of 200 basis points on the capital of Ithmaar.

23.4. Profit rate risk monitoring and reporting

Profit rate risk is monitored by reviewing the repricing profile of the Rate Sensitive Assets and Rate Sensitive Liabilities.

MIS on profit rate risk, including the impact of shift in profit rates on the earnings and economic value is presented to the ALCO and the Board Risk Management Committee.

23.5. Disclosure of Profit rate risk:

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates.

	USD	**EUR**	**PKR**	**BHD**	**AED**
Total profit rate exposure	80,899	94,415	380,270	698,153	287,647
Rate shock (assumed) (+/-)	0.44%	0.35%	0.38%	0.50%	0.38%
Total estimated impact (+/-)	**356**	**330**	**1,445**	**3,491**	**1,093**

At 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

24. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

Ithmaar cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, Ithmaar is able to manage the risks to an acceptable level

24.1 Operational risk management strategy

Ithmaar has in place a robust framework for the management of Operational Risk. Policies and Procedures on Operational Risk provide detailed guidelines for management of Operational Risks in Ithmaar.

All new products and processes are reviewed to identify the operational risks therein and mitigants are put in place.

The approach to Operational Risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties.
- Maintenance of an effective internal control environment.
- Escalation and resolution of risk and control incidents and issues.

24.2 Operational risk monitoring and reporting

A monthly report on Operational Risk events is submitted by the support and business departments, the events are reviewed and discussed, and shortcomings are resolved, external loss events are also recorded and reviewed in terms of its relevance to Ithmaar's operations.

A robust Risk Control and Self-Assessment process has been implemented; whereby significant risks in a process is identified and evaluated taking into consideration the inherent risk and residual risk.

Key Risk Indicators (KRIs) for all the significant risk areas have been developed and trends thereof are being monitored. Ithmaar has also established bank-wide Key Risk Indicators (KRI) which are constantly monitored to assess the overall operational risk profile of Ithmaar.

The Board Risk Management Committee is periodically updated on the operational risk profile of Ithmaar which include the review of the operational risk events, KRI monitoring and details of any operational risk event leading to financial or reputational loss.

24.3 Operational risk mitigation and control

The Operational Risk management process through RCSA, KRI and loss reporting is complemented by the department-level procedures which ensure that concerned staffs are well aware of their responsibilities and processes associated with their responsibilities.

The RCSA process also helps to identify the material operational risks and decision on appropriate controls to be implemented to mitigate the risks is arrived at. At times a decision is taken whether to accept the risks, reduce the level of activity involved, transfer the risk, or withdraw from the associate activity completely jointly by the Risk Management Department along with the concerned business/support department.

The Risk Management Department in consultation with the Legal department monitors the pending legal cases against Ithmaar. Wherever required Risk Management Department in coordination with the Legal Department assesses the impact of legal cases on the Operational and Reputational risk profile of Ithmaar.

24.4 Business Continuity Plan

Ithmaar has in place a Business Continuity Policy which deals with policy initiatives to ensure that Ithmaar continues its critical activities following a disastrous event.

This provides the plan for continuity of business operations at all times in case of any potential disruptions resulting from unanticipated loss of services or infrastructure.

A Business Continuity Plan Site has been set up at the Muharraq Branch and the West-Riffa Branch. The premises are well equipped with the required infrastructure. A Business Continuity Steering Committee and Business Continuity Implementation Committee has been set up, which oversee the implementation of the Business Continuity Plan in Ithmaar.

At 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

24. Operational Risk (Continued)

24.5 Reputation Risk

Reputation risk is the risk that an event will adversely affect Ithmaar's reputation in the market, which, in turn, may adversely impact its ability to effectively undertake its activities.

Sound corporate governance is a cornerstone in managing reputation risk. Ithmaar has in place a Reputational Risk Management Policy which details Ithmaar's multi-faceted approach relating to the management of reputational risk. Ithmaar also has a Corporate Governance Policy and a Code of Ethics and Business Conduct for the members of the Board, management and staff. This Code helps to build an atmosphere of professionalism, integrity and ethical behaviour within Ithmaar to avoid reputation risks.

25. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, Ithmaar's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel III guidelines. The capital requirement for operational risk at 31 December 2016 aggregated to $56.5 million.

26. Liquidity Risk

Liquidity risk is the risk that Ithmaar is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:

- From the inability to manage unplanned decreases or changes in funding sources; or
- From the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements of Ithmaar, Funding and liquidity management is performed centrally by the Treasury, with oversight from the ALCO and Board Risk Management Committee. ALCO is responsible for setting the framework and for effective monitoring of Ithmaar's liquidity risk. Ithmaar's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses.

The liquidity policy also sets out the minimum acceptable standards for the management of Ithmaar's assets and liabilities including maintenance of HQLAs, prudent assets and liabilities maturity mismatch limits, and a mechanism of monitoring liquidity risk in Ithmaar.

26.1. Liquidity risk strategy

A consolidated view on liquidity risk and a proposed future short and long term strategy (to be reviewed at least annually) is prepared as per the annual business plan of Ithmaar. The liquidity strategy is presented in the ALCO and approved by the Board as part of Strategic Plan of Ithmaar. The Liquidity Risk Policy and Liquidity Contingency Policy are annually reviewed by the Board.

26.2. Liquidity risk monitoring and reporting

ALCO monitors liquidity risk, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios and the funding maturity profile on a regular basis. RMD submits a quarterly report to the Board Risk Management Committee which includes an analysis of Ithmaar's adherence to limits in the various maturity buckets on a static and dynamic basis.

26.3. Liquidity Stress Testing

Stress testing of the liquidity risk profile of Ithmaar based on certain Board approved parameters is also performed and presented to the Board Risk Management Committee on a quarterly basis.

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

26. Liquidity Risk (Continued)

26.4. Liquidity Contingency Management

Ithmaar has also a Liquidity Contingency Policy which provides guidelines to withstand either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost

26.5. Liquidity ratios

	2016	2015	2014	2013	2012
Liquid assets to total assets	10.53%	10.58%	9.33%	10.19%	8.95%
Short term assets to short term liabilities	57.52%	59.39%	59.35%	66.97%	56.98%

27. Legal contingencies and compliance

At 31 December 2016, the Group had contingent liabilities towards customer and other claims aggregating to $353.6 million. The management is of the view that these claims are not likely to result into potential liabilities. During 2016, Ithmaar paid penalty of $67 thousand imposed by the CBB due to delay in compliance of regulatory submission requirement relating to 2015.

28. Displaced Commercial Risk

Ithmaar is exposed to rate of return risk in the context of its Profit Sharing Investment Accounts (PSIA) fund management. An increase in benchmark rates may result in Investment Account Holder (IAH)s' having expectations of a higher rate of return. Although as per mudaraba agreement, IAHs are eligible for the actual return earned on the assets and all losses in normal course of business on PSIA are born by the IAHs, Ithmaar may however, under market pressure pay a return that exceeds the rate that has been actually earned on assets funded by IAHs.

This increased rate of return risk may result in displaced commercial risk where Ithmaar may forgo its share of profits as modareb to match the IAHs.

28.1 The following mechanism / guidelines are followed to avoid the displaced commercial risk in Ithmaar:

Expected Rate of Returns to IAHs

ALCO on periodic basis reviews the expected rates offered to IAHs to revise and adjust them with the benchmark rates. Business units offering PSIAs products monitors benchmark rates being offered by the relevant competitors and overall trend and recommend changes in the expected rates offered by Ithmaar. This pro-active approach of adjusting the expected profit rates minimizes the displaced commercial risks of Ithmaar.

Profit Equalization and Investment Risk Reserves (PER & IRR)

A central principle of Islamic finance is that an investor participating in a Modaraba contract must bear all losses in normal course of business and are eligible for actual rate of returns earned on the assets. However, Ithmaar, to fulfill its fiduciary responsibility or to match benchmark rates or to avoid displaced commercial risk, creates reserves to make good such losses or meet the shortfall in expected returns. These reserves may be in the form of Profit Equalization Reserve and Investment Risk Reserves for PSIA Funds.

At 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

29. Gross income from Mudaraba and profit paid to Unrestricted Investment Accountholders

	31 December				
	2016	**2015**	**2014**	**2013**	**2012**
Income from unrestricted investment accounts	109,951	95,036	100,500	100,796	93,207
Less: return to unrestricted investment accounts	(80,231)	(69,143)	(76,793)	(77,133)	(70,785)
Group's share of income from unrestricted investment accounts as a Mudarib	**29,720**	**25,893**	**23,707**	**23,663**	**22,422**

For the year ended 31 December 2016 the return generated from unrestricted investment accountholders based on the average balance outstanding during the year stood at 4.1%. The return paid to unrestricted investment accountholders based on the average balance outstanding during the year stood at 2.8%.

30. Gross return from Restricted Investment Accounts (RIA)

	2016	**2015**	**2014**	**2013**	**2012**
Gross income / (expense)	**7,462**	6,837	302	4,278	268
Mudarib fee	**81**	164	208	599	809

31. Average declared rate of return on General Mudaraba deposits

	2016	**2015**	**2014**	**2013**	**2012**
30 Days	**1.07**	1.03	1.17	1.49	1.90
90 Days	**1.62**	1.55	1.69	1.99	2.48
180 Days	**2.00**	1.97	2.14	2.49	2.90
360 Days	**2.55**	2.47	2.60	2.97	3.40

Movement in Profit Equalization Reserve and Provisions – URIA

	31 December				
	2016	**2015**	**2014**	**2013**	**2012**
Profit Equalization Reserve					
As at 1 January	12,547	7,548	2,546	10,061	18,607
Net addition*	5,001	4,999	5,002	5,183	5,443
Transfer to impairment provisions	-	-	-	(12,698)	(13,989)
Closing balance	**17,548**	**12,547**	**7,548**	**2,546**	**10,061**
*Amount appropriated as a percentage of gross income	4.5%	5.3%	5.0%	5.1%	5.8%
Provisions					
As at 1 January	88,361	110,844	105,742	88,363	68,854
Net addition	5,550	7,074	4,892	6,496	6,406
Transfer from Investment Risk Reserve	-	-	835	-	-
Transfer from Profit Equalization Reserve	-	-	-	12,698	13,989
Net utilization	(36,889)	(29,557)	(625)	(1,815)	(886)
Reclassification	-	-	-	-	-
Closing balance	**57,022**	**88,361**	**110,844**	**105,742**	**88,363**

At 31 December 2016, the ratio of profit equalization reserve, investment risk reserve and provisions to equity of unrestricted investment accountholders stood at 0.63%, 0.64% and 2.06% respectively.

At 31 December 2016
(Expressed in thousands of United States Dollars unless otherwise stated)

32. Movement in Profit Equalization Reserve and Provisions – URIA (Continued)

At 31 December 2016, the ratio of financings to URIA stood at 67.3%.

At 31 December 2016, the percentage of each type of Islamic financing to total URIA financing was as follows:

	Percentage Financing to Total URIA Financing
Murabaha and other financings	75.38%
Musharaka financing	11.38%
Assets acquired for leasing	13.24%

The following table summarizes the breakdown of URIA and impairment provisions

	31 December				
	2016	**2015**	**2014**	**2013**	**2012**
Exposure : Banks	**356,885**	256,166	266,496	119,655	35,178
Exposure : Non-Banks	**2,412,809**	2,141,791	1,735,453	1,865,814	1,715,944
Provisions : Banks	**7,347**	9,439	14,755	6,373	1,775
Provisions : Non-Banks	**49,675**	78,922	96,089	99,369	86,588

32. Other disclosures

The audit fees charged and non-audit services provided by external auditors will be made available to the shareholders as and when requested. Such details will be made available to Ithmaar's shareholders as per their specific request provided that these disclosures would not negatively impact Ithmaar's interest and its competition in the market.

Deposits and Unrestricted Investment Accounts held with Ithmaar in the Kingdom are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the CBB in accordance with Resolution No.(34) of 2010.

Share Information

Shareholding Structure

	31-Dec-16			31-Dec-15		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
1-10,000	116	585,539	0.02	130	678,477	0.02
10,001 - 100,000	2,145	47,449,319	1.57	2,159	45,395,307	1.50
100,001 - 1,000,000	419	139,866,995	4.61	412	133,497,653	4.41
1,000,001 - 10,000,000	137	427,715,337	14.11	147	463,500,678	15.29
over 10,000,000	32	2,415,137,837	79.69	33	2,387,682,912	78.78
Total	2,849	3,030,755,027	100.00	2,881	3,030,755,027	100.00

Shareholding by Nationality

	31-Dec-16			31-Dec-15		
Country	No. of Shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Bahamas	2	959,467,864	31.66	2	959,467,864	31.66
Bahrain	772	393,472,161	12.98	828	320,336,976	10.57
KSA	862	727,264,149	24.00	855	754,423,471	24.89
Kuwait	606	691,159,614	22.80	585	731,634,400	24.14
Other GCC Countries	229	113,507,312	3.75	235	113,969,127	3.76
Other Countries	378	145,883,927	4.81	376	150,923,189	4.98
Total	2,849	3,030,755,027	100.00	2,881	3,030,755,027	100.00

Shares owned by Government - December 2016

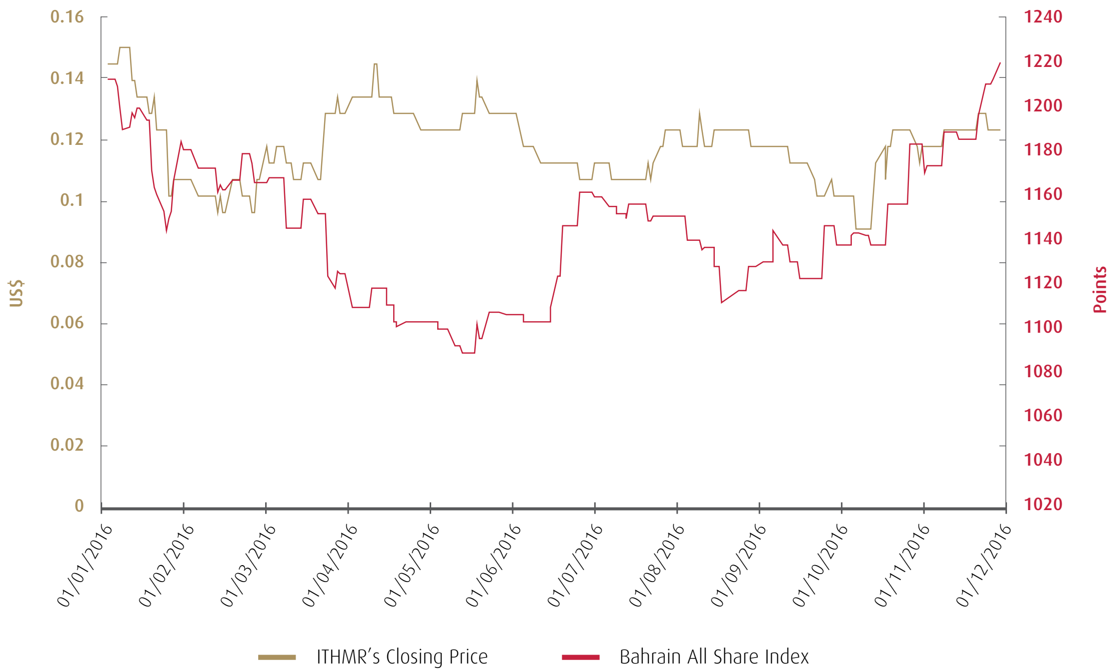
	No. of Shares
Ministry of Finance, Kingdom of Bahrain	40,881,210

Major Shareholders

Shareholder	No. of shares	%
Dar Al-Maal Al-Islami Trust	790,416,000	26.08
Islamic Inv. Co. of the Gulf	594,129,224	19.60
Nizar A. Razaq Al-Qurtas & Co.	215,100,485	7.10
Others	1,431,109,318	47.22
Total	3,030,755,027	100.00

Bahrain Bourse

ITHMR'S TRADING ACTIVITY - Bahrain



PERFORMANCE IN THE BAHRAIN BOURSE

Stock Code: ITHMR

Share Price Relative to Indices 2016	Open	Close	Change in 2016	
			points	%
ITHMR's Share Price (US $)	0.145	0.125	-0.02	-13.79
Bahrain All Share Index	1,215.89	1,220.45	4.56	0.38
Commercial Banks Sector's Index	2461.82	2481.78	19.96	0.81
Bahrain Islamic Index	818.30	909.81	91.51	11.18

ITHMR'S SHARE TRADING (BAHRAIN)

	2016	2015
Volume, No. of Shares	**100,167,894**	49,716,263
Value, US$	**11,833,493**	7,460,596

Boursa Kuwait

ITHMR'S TRADING ACTIVITY - Kuwait

PERFORMANCE IN THE BOURSA KUWAIT

Stock Code: ITHMR

Share Price Relative to Indices 2016	Open	Close	Change in 2016	
			points	%
ITHMR's Share Price (Fils Kuwaiti)	43.5	38	-5.50	-12.6
Commercial Banks Sector's Index	463.54	430.49	-33.05	-7.13
Kuwait All Share Index	5615.12	5748.09	132.97	2.36
Esterad Index	1206.15	1195.87	-10.28	-0.91

ITHMR'S SHARE TRADING (KUWAIT)

	2016	2015
Volume No. of Shares	**1,413,088,992**	920,442,652
Value, KWD	**51,529,934**	43,500,921

Corporate Information

Name of Company	Ithmaar Holding B.S.C. (formerly Ithmaar Bank B.S.C.)
Legal Form	Ithmaar Holding B.S.C. is a Bahrain-based financial institution that is licensed and regulated by the Central Bank of Bahrain. Ithmaar Holding B.S.C. is incorporated as a Bahrain shareholding company under Bahrain Commercial Companies Law (Law No. 21 of 2001). Ithmaar Holding B.S.C. shares are listed on the Bahrain Bourse and Boursa Kuwait.
Company Registration Number	CR 15210
Stock Exchange Listings	Bahrain Bourse and Boursa Kuwait
Stock code	"ITHMR"
Registered Office	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P.O. Box 2820, Manama, Kingdom of Bahrain
Telephone	+973 1758 4000
Facsimile	+973 1758 4017
E-mail	info@ithmaarholding.com
Website	www.ithmaarholding.com
Head Office	Seef Tower, Building 2080, Road 2825, Al Seef District 428, P.O. Box 2820, Manama, Kingdom of Bahrain
Accounting Year End	31 December
Compliance Officer	Hana Ahmed Al Murran - Head, Compliance and AML
Company Secretary	Dana Aqeel Raees - Head, Legal Department
Auditors	PricewaterhouseCoopers ME Limited, P.O. Box 21144, Manama, Kingdom of Bahrain