

**Eskan Bank B.S.C. (c)**

**REPORT OF THE BOARD OF DIRECTORS,  
INDEPENDENT AUDITORS' REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

## Chairman's Statement

On behalf of the Board of Directors, it gives me great pleasure to present the consolidated financial statements of Eskan Bank for the year ended 31 December 2016.

2016 was a year characterized by milestone successes for the Bank as it worked diligently to support the Ministry of Housing in laying the foundation of a sustainable housing model for the people of Bahrain. I am pleased to report that the Bank has posted positive financial results, with a total net income for 2016 of BD16.5 million, a substantial increase on the previous year representing an increase of 44% (2015: BD11.4 million). These outstanding results are attributable to enhanced development activities, in particular the completion and sale of three social housing developments, a successful exit from the Bahrain Property Musharaka Trust, the listing of Bahrain's first ever Islamic Real Estate Investment Trust (REIT), and the implementation of operational cost effective initiatives. Total equity stood at BD230.8 million (2015: BD221.9 million), while the return on equity stood at 7%. Total expenses decreased by 6% compared to the previous year as a result of enhanced development activities, while total income grew by 25%, contributing to a drop in the cost-to-income ratio to 28%, compared with 36% in 2015.

The Bank's total balance sheet grew to BD637 million at the end of 2016, compared to BD597 million at the end of the previous year. Capital adequacy ratio improved to 133%, while the Bank's balance sheet continues to boast healthy liquidity.

Underscoring the private sector's growing trust in the Bank in its evolved role in financial structuring and social housing development management, a number of milestone partnerships were forged with leading banks and landowners during the year. These partnerships further supported the Ministry in delivering quality social housing solutions whilst also substantially boosting private sector growth in the financing and construction sectors.

2016 was a year of delivery for Eskan Bank. Danat al Seef, Danat al Riffa, and the Hamad Town villa development were all completed and sold to beneficiaries of the Ministry of Housing while other key developments progressed; allowing the Ministry to make great strides towards fulfilling The Crown Prince's directives to deliver 25,000 units to citizens by 2018.

On behalf of the Board of Directors, I take this opportunity to convey our gratitude to His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain; to His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister; and to His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, and Chairman of the Economic Development Board; for their wise leadership and visionary reform.

I would also like to thank the Government of Bahrain, for its confidence and support and to acknowledge the close cooperation, professional advice and guidance received from its various ministries and official bodies. These include the Ministry of Finance; Ministry of Housing; Ministry of Industry and Commerce; Ministry of Justice, Islamic Affairs and Endowments; Ministry of Municipalities and Urban Planning; Ministry of Works; the Electricity and Water Authority; the Economic Development Board; Survey & Land Registration; the Tender Board and all Municipalities.

I would also like to express my appreciation to our management and staff for their unwavering dedication to serving the people of Bahrain, to our private sector partners for their trust and support, and to our customers for whom all our efforts are directed.



**H.E. Eng. Basim Bin Yacob Al Hamer**  
Minister of Housing,  
Chairman of Eskan Bank

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ESKAN BANK B.S.C. (c)**

### **Report on the Audit of the consolidated financial statements**

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other information*

Other information consists of the Chairman's report, set out on page 1 to 2 that was obtained at the date of this auditor's report. The Board of Directors is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ESKAN BANK B.S.C. (c) (continued)**

### *Responsibilities of the Board of Directors for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### *Auditor's Responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
ESKAN BANK B.S.C. (c) (continued)**

*Auditor's Responsibilities for the audit of the consolidated financial statements (continued)*

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with Board of Directors' / Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
ESKAN BANK B.S.C. (c) (continued)**

**Report on Other Legal and Regulatory Requirements**

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain ("the CBB") Rule Book, we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
- c) 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 1 and applicable provisions of Volume 6) and the CBB directives or regulations and associated resolutions or the terms of the Group's memorandum and articles of association during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Group or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by Management in response to all our requests.



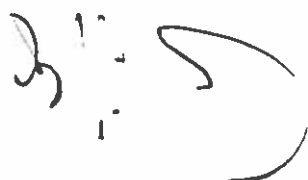
Partner's registration no. 115  
20 February 2017  
Manama, Kingdom of Bahrain

Eskan Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 BD	2015 BD
<b>ASSETS</b>			
Cash and bank balances	5	81,990,957	69,328,350
Investments	6	4,756,950	4,756,950
Loans	7	479,006,322	460,092,125
Investment in associates	8	3,408,418	6,911,010
Investment properties	9	44,549,755	31,996,018
Development properties	10	20,757,041	22,219,173
Other assets	11	2,337,213	1,960,326
<b>TOTAL ASSETS</b>		<b>636,806,656</b>	<b>597,263,952</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from financial and other institutions		35,500,000	3,002,875
Government accounts	12	272,215,356	237,808,209
Term loans	13	69,000,000	109,000,000
Other liabilities	14	29,263,539	25,554,884
<b>TOTAL LIABILITIES</b>		<b>405,978,895</b>	<b>375,365,968</b>
<b>EQUITY</b>			
Share capital	15	108,300,000	108,300,000
Contribution by shareholder		13,950,389	1,509,579
Statutory reserve		54,461,896	54,461,896
Retained earnings		47,450,568	50,988,785
<b>Equity attributable to Bank's shareholders</b>		<b>224,162,853</b>	<b>215,260,260</b>
Non-controlling interest		6,664,908	6,637,724
<b>TOTAL EQUITY</b>		<b>230,827,761</b>	<b>221,897,984</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>636,806,656</b>	<b>597,263,952</b>



Basim Bin Yacob Al Hamer  
Minister of Housing  
Chairman of Eskan Bank



Dr. Khalid Abdulla  
General Manager

The attached notes 1 to 29 form part of these consolidated financial statements.





**Eskan Bank B.S.C. (c)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2016

	Notes	2016 BD	2015 BD
Management charges		15,442,931	14,520,403
Interest income	16	2,441,058	2,254,626
Income from properties	17	3,165,522	449,853
Net share of profit of associates	8	1,773,029	1,131,308
Other income		440,486	308,861
<b>TOTAL INCOME</b>		<b>23,263,026</b>	<b>18,665,049</b>
Staff costs		(4,804,790)	(4,992,822)
Other expenses	18	(1,554,652)	(1,573,331)
Interest expense		(387,990)	(400,280)
Provision for impairment	19	(26,627)	(251,327)
<b>TOTAL EXPENSES</b>		<b>(6,774,059)</b>	<b>(7,217,760)</b>
<b>PROFIT FOR THE YEAR</b>		<b>16,488,967</b>	<b>11,447,289</b>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>16,488,967</b>	<b>11,447,289</b>
Attributable to:			
Equity shareholders of the parent		16,461,783	11,440,587
Non-controlling interest		27,184	6,702
		<b>16,488,967</b>	<b>11,447,289</b>



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**Eskan Bank B.S.C. (c)**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2016

	Equity attributable to Bank's shareholders						Total equity BD
	Share capital BD	Contribution by shareholder BD	Statutory reserve BD	Retained earnings BD	Total BD	Non- controlling interest BD	
At 1 January 2016	108,300,000	1,509,579	54,461,896	50,988,785	215,260,260	6,637,724	221,897,984
Dividend	-	-	-	(20,000,000)	(20,000,000)	-	(20,000,000)
Transfer of land (note 9)	-	12,440,810	-	-	12,440,810	-	12,440,810
Total comprehensive income	-	-	-	16,461,783	16,461,783	27,184	16,488,967
<b>At 31 December 2016</b>	<b>108,300,000</b>	<b>13,950,389</b>	<b>54,461,896</b>	<b>47,450,568</b>	<b>224,162,853</b>	<b>6,664,908</b>	<b>230,827,761</b>
At 1 January 2015	108,300,000	19,159,665	54,461,896	39,548,198	221,469,759	6,631,022	228,100,781
Transfer of land (note 9)	-	338,962	-	-	338,962	-	338,962
Total comprehensive income	-	-	-	11,440,587	11,440,587	6,702	11,447,289
Transfer to Shareholder (note 9)	-	(17,989,048)	-	-	(17,989,048)	-	(17,989,048)
<b>At 31 December 2015</b>	<b>108,300,000</b>	<b>1,509,579</b>	<b>54,461,896</b>	<b>50,988,785</b>	<b>215,260,260</b>	<b>6,637,724</b>	<b>221,897,984</b>

The attached notes 1 to 29 form part of these consolidated financial statements.

**Eskan Bank B.S.C. (c)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2016

	Notes	2016 BD	2015 BD
<b>OPERATING ACTIVITIES</b>			
Profit for the year		16,488,967	11,447,289
Adjustments for:			
Net share of profit of associates	8	(1,773,029)	(1,131,306)
Impairment provision on loans	7	119,266	251,327
Reversal of investment properties impairment provision	9	(142,000)	-
Gain on sale of development properties	17	(2,653,628)	-
Development cost written off	10	49,361	-
Depreciation	18	414,890	318,570
Operating profit before working capital changes:		<u>12,503,827</u>	<u>10,885,880</u>
Decrease in placements with banks		24,706,601	12,773,149
Increase in loans		(19,033,463)	(25,573,350)
Increase in other assets		(198,160)	(47,806)
Increase (decrease) in deposits from financial and other institutions		32,497,125	(45,104,308)
Increase in other liabilities		3,793,844	1,491,158
Net cash flows from (used in) operating activities		<u>54,269,774</u>	<u>(45,575,277)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment		(411,272)	(345,906)
Investment in associate - capital repayment	8	8,090,728	3,330,955
Investment in an associate		(2,815,107)	-
Investment in development properties	10	(5,988,872)	(6,068,052)
Proceeds from sale of development properties		9,816,810	-
Sale of equipment		-	392
Net cash flows from (used in) investing activities		<u>8,692,287</u>	<u>(3,082,611)</u>
<b>FINANCING ACTIVITIES</b>			
(Repayment) proceeds of term loans		(40,000,000)	50,000,000
Dividend paid		(20,000,000)	-
Net movement in Government accounts		34,407,147	(13,650,910)
Net cash flows (used in) from financing activities		<u>(25,592,853)</u>	<u>36,349,090</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>37,369,208</b>	<b>(12,308,798)</b>
Cash and cash equivalents at 1 January	5	<u>34,509,840</u>	<u>46,818,638</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	5	<u><u>71,879,048</u></u>	<u><u>34,509,840</u></u>
<b>Cash and cash equivalents comprise:</b>			
Cash and cash equivalents	5	<u>71,879,048</u>	<u>34,509,840</u>
		<u><u>71,879,048</u></u>	<u><u>34,509,840</u></u>
<b>Non-cash activities</b>			
Transfer between investment and development properties		238,461	2,441,066
Transfer to the Shareholder	9.2	-	17,989,048
Investment properties (land contribution by the shareholder)	9	12,440,810	338,962

The attached notes 1 to 29 form part of these consolidated financial statements.

## **1 CORPORATE INFORMATION**

### **Incorporation**

Eskan Bank B.S.C. (c) ("the Bank") is a closed joint stock company registered and incorporated by Amiri Decree No. 4 of 1979. The Bank operates under a restricted Commercial Banking License issued by the Central Bank of Bahrain ("the CBB"). The Bank is affiliated to the concerned Minister of Housing and its shares are fully owned by the Government of Bahrain in accordance with the Articles of Association, whose provisions shall be deemed as Law according to the establishment law of the Bank.

### **Activities**

The Bank's principal activities include disbursing housing loans to Bahrain nationals as directed by the Ministry of Housing ("MOH"), developing construction projects within the Kingdom of Bahrain and collecting rent and mortgage repayments on behalf of the MOH. Further, the Bank also acts as an administrator for the MOH in respect of housing facilities and certain property related activities. The Bank enters into various transactions in the ordinary course of business related to housing loans, rents and mortgage repayments and property administration. The Bank receives funds from the Ministry of Finance ("MOF") based on annual budgetary allocations for housing loans. The Bank also records certain transactions based on instructions from the MOH and the MOF and decisions taken by the Government of the Kingdom of Bahrain. The Bank's registered office is at Almoayyed Tower, Seef district, Manama, Kingdom of Bahrain.

The consolidated financial statements were approved by the Board of Directors on 20 February 2017.

## **2 BASIS OF PREPARATION**

### **Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and are in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the relevant directives.

### **Accounting convention**

The consolidated financial statements have been prepared under the historical cost convention except as modified by the remeasurement at fair value of available for sale investments.

The consolidated financial statements are presented in Bahraini Dinars (BD), this being the functional currency of the Group.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 26.

### **Basis of consolidation**

The consolidated financial statements comprise the consolidated financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised profits and losses resulting from intra-group transactions are eliminated in full.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

As at 31 December 2016

**2 BASIS OF PREPARATION (continued)****Basis of consolidation (continued)**

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the statement of income; and
- Reclassifies the parent's share of components previously recognised in OCI to the statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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

<i>Subsidiaries</i>	<i>Ownership for 2016</i>	<i>Ownership for 2015</i>	<i>Year of incorporation/ acquisition</i>	<i>Country of incorporation/ acquisition</i>
<i>Eskan RMBS Company B.S.C.(c) ('RMBS')</i> RMBS's principal activities are to issue Asset Backed private debt securities for the purpose of securitisation of housing loans.	100%	100%	2007	Kingdom of Bahrain
<i>Eskan Properties Company B.S.C.(c) ('EPC')</i> EPC's principal activities are managing certain investment properties.	100%	100%	2007	Kingdom of Bahrain
<i>Dannat Al Luzi B.S.C (c)</i> Management and development of private property, buying and selling of properties on behalf of the Company and property development, leasing, management and maintenance.	56%	56%	2014	Kingdom of Bahrain

### 3 ACCOUNTING POLICIES

#### 3.1 Summary of significant accounting policies

##### **New standards, interpretations and amendments adopted by the Group**

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective as of 1 January 2016.

##### *IFRS 14 Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

##### *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the year.

##### *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

##### *Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

##### *Amendments to IAS 27: Equity Method in Separate Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

**3 ACCOUNTING POLICIES (continued)**

**3.1 Summary of significant accounting policies (continued)**

**New standards, interpretations and amendments adopted by the Group (continued)**

*Annual Improvements 2012-2014 Cycle*

These improvements include:

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

*IFRS 7 Financial Instruments: Disclosures*

*(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

*(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

*IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

*IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Group.

*Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

**3 ACCOUNTING POLICIES (continued)**

**3.1 Summary of significant accounting policies (continued)**

**New standards, interpretations and amendments adopted by the Group (continued)**

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, balances held with the CBB and placements with financial institutions with original maturities of less than 90 days. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

**Placements with financial institutions and others**

Placements with financial institutions and others are financial assets which are mainly money market placements with fixed or determinable payments and placements with financial institutions and others with fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Placements with financial institutions and others are stated at amortised cost less provision for impairment, if any.

**Loans**

Loans are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans comprise of social housing loans and commercial housing loans. The Group recognises loans on the date on which they are originated.

Social housing loans represent loans disbursed to Bahraini nationals for the purpose of buying, constructing and repairing houses, based on directives from the MOH.

Commercial housing loans represent loans disbursed to Bahraini nationals in the ordinary course of business in line with the credit policies of the Group.

Loans are stated at amortised cost, less provision for impairment, if any and in the case of social housing loans, subsidies and reductions granted by the Government.

**Investments**

All investments are recognised initially at fair value, including directly attributable transaction costs, except in the case of investments recorded at fair value through profit or loss, where transaction costs are expensed in the consolidated statement of comprehensive income.

Following the initial recognition, investments are remeasured using the following policies:

*Available for sale investments*

Investments are classified as "available for sale" if they are not classified as carried at fair value through profit or loss and mainly comprise of investments in unquoted equity securities.



**3 ACCOUNTING POLICIES (continued)**

**3.1 Summary of significant accounting policies (continued)**

**Investments (continued)**

*Available for sale investments (continued)*

After initial recognition, investments which are classified as available for sale are remeasured at fair value. Fair value changes are reported as a separate component of equity (other comprehensive income) until the investment is derecognised or the investment is determined to be impaired, at which time the cumulative change in fair value is included in the profit or loss. The losses arising from impairment of such investments are recognised in the profit or loss and are excluded from other comprehensive income.

**Government accounts**

Transactions with the MOF and the MOH are recorded by the Group as government accounts. Government accounts are non interest bearing and are payable on demand.

Transactions are recorded at the fair value of the consideration received, less amounts repaid or adjustments made as per the instructions of MOF or MOH.

**Deposits from financial and other institutions and term loans**

These financial liabilities are carried at amortised cost, less amounts repaid.

**Fair values**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 valuation: Directly observable quotes for the same instrument (market prices).
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date (mark-to-model with market data).
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed (mark-to-model with deduced proxies).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**3 ACCOUNTING POLICIES (continued)**

**3.1 Summary of significant accounting policies (continued)**

**Fair values (continued)**

Financial instruments with no active market or where fair value cannot be reliably determined are stated at cost less provision for any impairment.

**De-recognition of financial instruments**

*Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset has expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- the Group has transferred substantially all the risks and rewards of the asset, or
- the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

*Financial liabilities*

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

**Impairment of financial assets**

An assessment is made at the date of each consolidated statement of financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for changes in its carrying amount as follows:

*Impairment of financial assets held at amortised cost*

A financial asset is considered impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility.

The Group considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the profit or loss.

**3 ACCOUNTING POLICIES (continued)**

**3.1 Summary of significant accounting policies (continued)**

**Impairment of financial assets (continued)**

Financial assets are written off after all restructuring and collection activities have taken place and the possibility of further recovery is considered to be remote. Subsequent recoveries are included in other income. Provisions for impairment are released and transferred to profit or loss where a subsequent increase in the recoverable amount is related objectively to an event occurring after the provision for impairment was established.

*Available for sale investments*

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income – is removed from equity and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income; increases in their fair value after impairment are recognised directly in the other comprehensive income.

**Impairment of non financial assets**

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and impairment losses are recognised in the consolidated statement of comprehensive income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed in the profit or loss only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

**Offsetting of financial instruments**

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

**Recognition of income and expense**

*Income recognition*

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

*Management charges*

Management charges on social loans is recognised using the effective yield method subsequent to the grace period of six months and is calculated at a fixed rate.

**3 ACCOUNTING POLICIES (continued)**

**3.1 Summary of significant accounting policies (continued)**

**Recognition of income and expense (continued)**

*Interest income*

Interest income on commercial loans is recognised using the effective yield method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

*Rental income*

Rental income from investment properties is recognised on a straight line basis over the term of the lease.

*Other income*

Other income is recognised when the services are rendered by the Group.

*Dividend income*

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

**Employees' end of service benefits**

Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Bahraini employees are covered under the General Organization for Social Insurance ("GOSI") scheme and the contributions are determined as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment for financial assets.

**Investments in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of comprehensive income 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 comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income. This is the profit or loss attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

Distributions received from an associate reduce the carrying amount of investment.

**3 ACCOUNTING POLICIES (continued)**

**3.1 Summary of significant accounting policies (continued)**

**Investments in associates (continued)**

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in the profit or loss.

**Development properties**

Development properties consist of land being developed for sale in the ordinary course of business and costs incurred in bringing such land to its saleable condition. Development properties are stated at the lower of cost and net realisable value.

**Investment properties**

Investment properties are properties held for the purpose of development for rental or capital appreciation or for both. Investment properties are stated at cost, including transaction costs, less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method at annual rates. No depreciation is charged on freehold land. Expenditure subsequent to initial recognition is capitalised only when it increases future economic benefits embodied in the properties. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense when incurred.

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income in the period of derecognition.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**Contingent liabilities and contingent assets**

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

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

**Statutory Reserve**

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for the year is transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not distributable, but may be utilised as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

**3 ACCOUNTING POLICIES (continued)**

**3.1 Summary of significant accounting policies (continued)**

**Trade date accounting**

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

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

**3.2 Prospective changes in accounting policies**

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group has performed a preliminary impact assessment with respect to the classification and impairment assessment of its financial instruments and plans to adopt the new standard on the required effective date. Further, the Group does not apply any hedge accounting with respect to its financial instruments, therefore the change will not have any impact on the Group.

*IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

*Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

**3 ACCOUNTING POLICIES (continued)**

**3.2 Prospective changes in accounting policies (continued)**

*IAS 7 Disclosure Initiative – Amendments to IAS 7*

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

*IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

*IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. These amendments are not expected to have any impact on the Group.

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

### 3 ACCOUNTING POLICIES (continued)

#### 3.2 Prospective changes in accounting policies (continued)

##### *IFRS 16 Leases (continued)*

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Management is considering the implications of these standards and amendments, their impact on the Group's financial position and results and the timing of their adoption by the Group.

### 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of assets, liabilities, revenue, expenses and the disclosure of contingent liabilities as of the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

#### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimates and assumptions, which have the most significant effect on the amounts recognised in the consolidated financial statements.

##### *Going concern*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

##### *Classification of investments*

Management decides on acquisition of an investment whether it should be classified as fair value through profit or loss or available-for-sale.

#### **Estimates**

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

## Estimates (continued)

*Impairment losses on loans*

The Group reviews its individually significant commercial loans at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of comprehensive income. In particular, management judgement is required when determining the impairment loss. In estimating the future cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

*Impairment of available-for-sale investments*

The Group reviews its debt securities classified as available-for-sale investments at each consolidated statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

## 5 CASH AND BANK BALANCES

	2016 BD	2015 BD
<b>Cash and bank balances</b>		
Cash	166,667	164,224
Balances with banks	1,218,182	4,124,148
Balances with the Central Bank of Bahrain	1,502,060	3,627,934
	<u>2,886,909</u>	<u>7,916,306</u>
<b>Short term placements (with an original maturity of 90 days or less)</b>		
Placements with banks and other institutions	27,843,344	9,393,534
Placements with the Central Bank of Bahrain	41,148,795	17,200,000
	<u>68,992,139</u>	<u>26,593,534</u>
Total cash and cash equivalents	<u>71,879,048</u>	<u>34,509,840</u>
<b>Placements (with an original maturity of more than 90 days)</b>		
Placements with banks and other institutions	1,622,055	-
Placements with the Central Bank of Bahrain	8,489,854	34,818,510
	<u>10,111,909</u>	<u>34,818,510</u>
Total cash and bank balances	<u>81,990,957</u>	<u>69,328,350</u>

## 6 INVESTMENTS

	2016 BD	2015 BD
The following represents available for sale equity investments:		
Naseej B.S.C.	3,272,728	3,272,728
Southern Area Development Company B.S.C.(c)	1,215,854	1,215,854
Bahrain Aluminium Extrusion Co. B.S.C.(c) (net of provision of BD 100,000 (2015: BD 100,000))	268,368	268,368
	<u>4,756,950</u>	<u>4,756,950</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 7 LOANS

	2016 BD	2015 BD
<b>(i) Social loans</b>		
Loans	514,462,033	482,859,659
Less: Provisions for 50% subsidy under Amiri Decree No. 18/1977 (d (v))	(49,553,799)	(43,879,618)
	<u>464,908,234</u>	<u>438,980,041</u>
<b>(ii) Commercial loans</b>		
Gross Loans	15,544,388	22,439,118
Less: Provision for impairment	(1,446,300)	(1,327,034)
	<u>14,098,088</u>	<u>21,112,084</u>
<b>Total loans</b>	<u>479,006,322</u>	<u>460,092,125</u>

Loans stated at a carrying amount of BD 30 million (2015: BD 33 million) are secured as guarantee against the RMBS bonds issued (note 13).

## a) Age analysis of past due but not impaired loans

	2016				Total BD
	Up to 30 days BD	31 to 60 days BD	61 to 90 days BD	Above 90 days BD	
Social loans	-	19,649,773	5,331,269	29,456,720	54,437,762
Commercial loans	2,233,789	222,054	163,323	-	2,619,166
	<u>2,233,789</u>	<u>19,871,827</u>	<u>5,494,592</u>	<u>29,456,720</u>	<u>57,056,928</u>
	2015				Total BD
	Up to 30 days BD	31 to 60 days BD	61 to 90 days BD	Above 90 days BD	
Social loans	-	15,845,258	5,062,466	24,856,781	45,764,505
Commercial loans	3,167,023	698,157	467,656	-	4,332,836
	<u>3,167,023</u>	<u>16,543,415</u>	<u>5,530,122</u>	<u>24,856,781</u>	<u>50,097,341</u>

None of the above past due loans are considered to be impaired and the credit risk for social loans does not reside with the Group.

## b) Age analysis of impaired loans

	2016				Total BD
	3-6 Months BD	6-12 Months BD	1-3 Years BD	3-5 Years BD	
Commercial loans	228,358	449,390	976,333	674,098	2,328,179
	2015				Total BD
	3-6 Months BD	6-12 Months BD	1-3 Years BD	3-5 Years BD	
Commercial loans	294,837	426,931	641,001	463,162	1,825,931

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 7 LOANS (continued)

## c) Impairment provision for commercial loans

	2016			
	Opening balance	Charge for the year	Write- backs	Closing balance
	BD	BD	BD	BD
<b>General Provision</b>				
Commercial loans	213,253	-	(70,848)	142,405
<b>Specific Provision</b>				
Commercial loans	1,113,781	265,417	(75,303)	1,303,895
At 31 December	<u>1,327,034</u>	<u>265,417</u>	<u>(146,151)</u>	<u>1,446,300</u>
	2015			
	Opening balance	Charge for the year	Write- backs	Closing balance
	BD	BD	BD	BD
<b>General Provision</b>				
Commercial loans	253,035	-	(39,782)	213,253
<b>Specific Provision</b>				
Commercial loans	822,672	367,856	(76,747)	1,113,781
At 31 December	<u>1,075,707</u>	<u>367,856</u>	<u>(116,529)</u>	<u>1,327,034</u>

The cost of social loan subsidies, reductions and waivers are charged to the government accounts.

## d) Social loans

Social loans are stated after writing off the following reductions / waivers:

- (i) Under a Cabinet decision issued in April 1992, a reduction of 25% ("1992 Reduction") was granted on monthly instalments with effect from 1 May 1992, and subsequently restricted to social loans granted prior to 31 December 1998.
- (ii) On 16 December 2000, an additional reduction of 25% ("2000 Reduction") was granted on monthly instalments for social loans that were outstanding as of 15 December 2000.
- (iii) On 15 February 2002, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 50% ("2002 Reduction") of the social loans granted.

Management also waived all resultant balances of BD 1,000 and below, as of 15 February 2002 arising from the above reductions and the subsidy mentioned in (v) below. Management have assumed that the 2002 Reduction included borrowers whose loans had been approved on or before 15 February 2002, but not disbursed.

In implementing the 2002 Reduction, referred to in (iii) above, the 2000 Reduction was also recalculated in 2002 to apply the reduction only to instalments that were due after 15 December 2000 and not to overdue instalments.

- (iv) On 16 December 2006, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 50% ("2006 Reduction") of the social loans granted.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 7 LOANS (continued)

## d) Social loans (continued)

- (v) The provision of this subsidy which was made in earlier years, represents a waiver of 50% of monthly instalments relating to eligible loans covered by Amiri Decree No. 18/1977. The waivers / reductions mentioned in (iv) above have also been applied to the eligible loans.
- (vi) On 26 February 2011, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 25% ("2011 Reduction") on instalments of social loans and a 25% reduction on outstanding balances of mortgage loans.

## 8 INVESTMENT IN ASSOCIATES

	2016 BD	2015 BD
At 1 January	6,911,010	9,110,659
Investment in an associate	2,815,107	-
Capital repayment (non cash: BD 2,815,107)	(8,090,728)	(3,330,955)
Net share of profit	1,773,029	1,131,306
<b>At 31 December</b>	<b>3,408,418</b>	<b>6,911,010</b>

The principal associates of the Group are:

Name	Country of Incorporation	Carrying Value	
		2016 BD	2015 BD
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	593,311	6,911,010
Eskan Bank Reality Income Trust	Kingdom of Bahrain	2,815,107	-
Ebdaa Bank	Kingdom of Bahrain	-	-
		<b>3,408,418</b>	<b>6,911,010</b>

Name	Nature of activities	Ownership for	
		2016	2015
Bahrain Property Musharaka Trust Fund	Development of two real-estate projects in the Kingdom of Bahrain.	42.98%	42.98%
Eskan Bank Reality Income Trust (EBRIT)	A real estate investment trust operating and managing two real estate assets.	22.46%	-
Ebdaa Bank	Providing micro-financing to low-to-middle income Bahrainis.	20%	20%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

**8 INVESTMENT IN ASSOCIATES (continued)**

The following table illustrates the summarised financial information of the Group's investment in Bahrain Property Musharaka Trust Fund:

	2016 (unaudited) BD	2015 (unaudited) BD
<b>Summarised statement of financial position</b>		
Current assets*	2,204,945	20,011,535
Current liabilities	(824,511)	(1,695,471)
Exclude fair value reserve	-	(1,178,826)
<b>Net assets</b>	<b>1,380,434</b>	<b>17,137,238</b>
Proportion of the Group's ownership	42.98%	42.98%
Group's ownership in equity	593,311	7,365,585
Other adjustments	-	(454,575)
<b>Carrying amount of the investment</b>	<b>593,311</b>	<b>6,911,010</b>

\* Includes cash and cash equivalents of BD 1,449 thousand (31 December 2015: BD 8,928 thousand).

	2016 (unaudited) BD	2015 (unaudited) BD
<b>Summarised statement of profit and loss</b>		
Total income	7,732,220	3,393,096
Total expenses	(1,011,334)	(680,775)
<b>Total comprehensive income</b>	<b>6,720,886</b>	<b>2,712,321</b>
<b>Group's net share of profit</b>	<b>2,888,637</b>	<b>1,165,756</b>
Exclude fair value reserve unrealized	(1,393,757)	-
Other adjustments	278,149	(34,450)
<b>Share of profit for the year</b>	<b>1,773,029</b>	<b>1,131,306</b>

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2016 and 2015 related to its associates.

During the year, the Group received in kind capital repayment from Bahrain Property Musharaka Trust in the form of equity shares within EBRIT. The Bank currently owns 22.46% within EBRIT, which is a real estate investment trust operating and managing two real estate assets, Segaya Plaza and Danaat Al Madina (retail and commercial component).

The following table illustrates the summarised financial information of the Group's investment in EBRIT :

	2016 (unaudited) BD
<b>Summarised statement of financial position</b>	
Non-current assets	19,800,000
<b>Net assets</b>	<b>19,800,000</b>
Proportion of the Group's ownership	22.46%
Group's ownership in equity	4,447,080
Other adjustments	(1,631,973)
<b>Carrying amount of the investment</b>	<b>2,815,107</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 9 INVESTMENT PROPERTIES

	2016 BD	2015 BD
Opening balance at beginning of the year	31,996,018	42,604,353
Transferred from development properties	238,461	2,441,066
Additions during the year (note 9.1)	12,440,810	338,962
Depreciation charge for the year	(182,345)	(112,981)
Other adjustments	(85,189)	-
Transfer to Shareholder (note 9.2)	-	(13,275,382)
Reversal of impairment	142,000	-
	<u>44,549,755</u>	<u>31,996,018</u>

**Note 9.1**

This represents a capital contribution from the Government of the Kingdom of Bahrain. The land was recognised at its fair value on the date of transfer as determined by independent external real estate valuers.

**Note 9.2**

During 2015, based on the instruction from the MOH, the Bank transferred land worth BD 13.3 million to the shareholder. The corresponding amount has been adjusted from the contribution by shareholder in the consolidated statement of changes in equity.

Investment properties comprise the following:

	2016 BD	2015 BD
Land at Bander Al-Seeif	29,296,874	16,856,064
Land at Sanabis	2,571,508	2,571,508
Land at Hamad town	2,045,219	2,045,219
Land at Jaw	1,938,783	1,938,783
Land at Saar	1,903,251	1,903,251
Land at Busayteen	628,000	628,000
Land at Salmabad	109,631	109,631
Land at Safra	99,522	99,522
Land at Zallaq	89,000	89,000
Land at Muharraq	23,519	23,519
Shops (accumulated depreciation BD 1,144,877 (2015 BD 962,532))	5,844,448	5,873,521
	<u>44,549,755</u>	<u>32,138,018</u>
Impairment allowance	-	(142,000)
	<u>44,549,755</u>	<u>31,996,018</u>

The fair value of investment properties, based on independent market valuations, as at 31 December 2016 was BD 194,092 thousand (2015: BD 176,635 thousand). During the year, land with a fair value of BD 12,441 thousand (2015: BD 339 thousand) was transferred to the Bank by the Government and accordingly has been treated as additional contribution by a shareholder.

The fair value of completed investment properties has been determined on a market value basis. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and did not solely rely on historic transaction comparables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

**9 INVESTMENT PROPERTIES (continued)**

The valuations were performed by accredited independent valuers with recognised and relevant professional qualifications and with recent experience in the location and category of the investment properties being valued.

The Group's investment properties are categorised in level 3 of the fair value hierarchy as at 31 December 2016 and 31 December 2015. No transfers were made from level 1 to level 2 or from level 1 or level 2 to level 3 during the year ended 31 December 2016 and 31 December 2015.

**10 DEVELOPMENT PROPERTIES**

	<b>2016</b>	<b>2015</b>
	<b>BD</b>	<b>BD</b>
Opening balance at beginning of the year	22,219,173	18,592,187
Additions during the year	5,988,872	6,068,052
Properties sold during the year	(7,163,182)	-
Costs written off during the year	(49,361)	-
Transferred to investment properties	(238,461)	(2,441,066)
<b>At 31 December</b>	<b>20,757,041</b>	<b>22,219,173</b>

**11 OTHER ASSETS**

	<b>2016</b>	<b>2015</b>
	<b>BD</b>	<b>BD</b>
Equipment and other assets (net book value)	849,385	670,658
Management fee and interest receivable	508,267	576,036
Receivables	429,381	341,876
Staff loans	286,588	216,235
Prepayments and advances	263,592	155,521
	<b>2,337,213</b>	<b>1,960,326</b>

**12 GOVERNMENT ACCOUNTS**

The Bank's transactions with the MOH and MOF are recorded in a single account "Government Accounts" and are non-interest bearing. All cash transfers provided by the MOF on behalf of MOH to the Bank are credited to this account. These funds are used for financing housing programs as per Government policy. The Bank also processes various transactions through these accounts based on the instructions of MOH and MOF and the government of Kingdom of Bahrain.

These accounts are mainly affected by the following:

- a) Monthly budgetary support received from the MOF for disbursement of new social housing loans, reimbursements of project payments processed by Eskan Bank to Contractors, collections relating to MOH houses and rentals from MOH flats;
- b) Reduction decrees issued by the Government from time to time;
- c) Write off and waivers, death benefit write offs; and
- d) Any other payments / transactions undertaken by the Bank on behalf of MOH / MOF in relation to housing projects.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 13 TERM LOANS

	2016 BD	2015 BD
Syndicated bank term loan	60,000,000	100,000,000
RMBS bonds	9,000,000	9,000,000
<b>At 31 December</b>	<b>69,000,000</b>	<b>109,000,000</b>

The syndicated bank term loan bears interest repayable monthly at offer rate determined by the syndicate plus a margin of 2.25% (2015: 2.25%). The syndicated bank term loan is repayable semi-annually starting June 2016 to June 2018. The amount is mainly used towards financing disbursements of social loans. However, there is no restriction on the use of this amount. During the year, interest expense amounting to BD 3,189 thousand (2015: BD 1,793 thousand) on the syndicated bank term loan was charged to the Government account.

The RMBS bonds bear interest repayable biannually at BIBOR plus a margin of 1.692% (2015: 1.639%). The RMBS bonds, repayable by October 2017, are secured against certain social loans issued by the Bank (note 7).

	2016 BD	2015 BD
Term loans maturing in less than 1 year	49,000,000	40,000,000
Term loans maturing in more than 1 year	20,000,000	69,000,000
	<b>69,000,000</b>	<b>109,000,000</b>

## 14 OTHER LIABILITIES

	2016 BD	2015 BD
Unearned income for 50% subsidy under Amiri Decree (note 7)	18,950,587	16,739,023
Current accounts	4,597,256	5,181,070
Accrued expenses	2,041,258	1,137,313
Contractor retentions	987,850	575,929
Advance from pre-sales	814,614	-
Employee savings scheme	721,737	578,634
Employee benefits	273,643	204,192
Accrued interest payable on term loans	231,604	298,686
Acquisition of a subsidiary consideration payable	9,463	301,835
Other liabilities	635,527	538,202
	<b>29,263,539</b>	<b>25,554,884</b>

## 15 SHARE CAPITAL

	Number of shares	2016 BD
<b>31 December 2016</b>		
Authorised ordinary share capital of BD 100 each	4,000,000	400,000,000
Issued and fully paid up ordinary share capital of BD 100 each	1,083,000	108,300,000



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 15 SHARE CAPITAL (continued)

	<i>Number of shares</i>	<i>2015 BD</i>
31 December 2015		
Authorised ordinary share capital of BD 100 each	4,000,000	400,000,000
Issued and fully paid up ordinary share capital of BD 100 each	1,083,000	108,300,000

## 16 INTEREST INCOME

	<i>2016 BD</i>	<i>2015 BD</i>
Interest income on commercial loans	1,370,054	1,858,219
Interest income on placements with financial and other institutions	1,071,004	396,407
	<b>2,441,058</b>	<b>2,254,626</b>

## 17 INCOME FROM PROPERTIES

	<i>2016 BD</i>	<i>2015 BD</i>
Gain on sale of development properties	2,653,628	-
Rental income - net	511,894	449,853
	<b>3,165,522</b>	<b>449,853</b>

## 18 OTHER EXPENSES

	<i>2016 BD</i>	<i>2015 BD</i>
Depreciation	414,890	318,570
Computer maintenance	269,553	227,648
Premises	253,294	234,775
Marketing cost	130,701	233,391
Legal and professional	194,211	275,790
Directors remuneration	91,955	69,437
Transportation and communication	77,950	72,304
Electricity	49,516	42,094
Insurance	20,459	22,557
Others	52,123	76,765
	<b>1,554,652</b>	<b>1,573,331</b>

## 19 PROVISION FOR IMPAIRMENT

	<i>2016 BD</i>	<i>2015 BD</i>
Impairment provision on loans	119,266	251,327
Write off of development costs (note 10)	49,361	-
Reversal of impairment against investment properties	(142,000)	-
	<b>26,627</b>	<b>251,327</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

As at 31 December 2016

**20 COMMITMENTS AND CONTINGENCIES**

	<b>2016</b>	<b>2015</b>
	<b>BD</b>	<b>BD</b>
Housing loan commitments approved by MOH (note 20.1)	<b>8,735,518</b>	91,383,786
Capital commitments	<b>2,282,596</b>	6,298,715
Commercial Loan commitments	<b>97,668</b>	91,875
Lease commitments not later than one year	<b>72,442</b>	175,108
Lease commitments later than one year but not later than five years	-	72,922
	<b>11,188,224</b>	<b>98,022,406</b>

The Group has filed cases against certain ex-employees on the grounds of misconduct. If the Group is successful in proving its case, it will result in a receipt of BD 944,418 (2015: BD 944,418).

**Note 20.1**

The Ministry of Housing provides funds annually to the Bank for disbursement of social housing loans along with a list of approved beneficiaries. Social loans that remain undisbursed at the end of the year are disclosed as a commitment. During the year, as per the directives of the MOH, loan commitments relating to customers prior to 2015, who did not approach the Bank where fully cancelled.

**21 RELATED PARTY TRANSACTIONS**

Related parties represent shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of the transactions relating to these related parties are approved by management. The amounts due to and from related parties are settled in the normal course of business.

The Group's transactions with related parties comprise of transactions with the MOF and the MOH and transactions with associates, including the Board of Directors, in the ordinary course of business. Balances and transactions with Government, Board of Directors and investments in associates are disclosed on the face of the consolidated statement of financial position and consolidated statement of comprehensive income and the notes therein.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group comprise the General Manager, Chief Business Officer, Chief Operating Officer, Head of Finance, Head of Risk and other senior management. The key management personnel compensation is as follows:

	<b>2016</b>	<b>2015</b>
	<b>BD</b>	<b>BD</b>
Short term employee benefits	<b>704,866</b>	697,548
Long term employee benefits	<b>51,217</b>	40,503
	<b>756,083</b>	<b>738,051</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 22 CLASSIFICATION OF FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Group:

At 31 December 2016

	<i>Available- for-sale BD</i>	<i>Amortised cost/ Loans and receivables BD</i>	<i>Total BD</i>
<b>Financial assets</b>			
Investments	4,756,950	-	4,756,950
Loans	-	479,006,322	479,006,322
Other assets	-	1,226,537	1,226,537
	<u>4,756,950</u>	<u>480,232,859</u>	<u>484,989,809</u>

	<i>Amortised cost BD</i>	<i>Total BD</i>
<b>Financial liabilities</b>		
Deposits from financial and other institutions	35,500,000	35,500,000
Government accounts	272,215,356	272,215,356
Term loans	69,000,000	69,000,000
Other liabilities	28,268,159	28,268,159
	<u>404,983,515</u>	<u>404,983,515</u>

At 31 December 2015

	<i>Available- for-sale BD</i>	<i>Amortised cost/ Loans and receivables BD</i>	<i>Total BD</i>
<b>Financial assets</b>			
Investments	4,756,950	-	4,756,950
Loans	-	460,092,125	460,092,125
Other assets	-	1,135,764	1,135,764
	<u>4,756,950</u>	<u>461,227,889</u>	<u>465,984,839</u>

	<i>Amortised cost BD</i>	<i>Total BD</i>
<b>Financial liabilities</b>		
Deposits from financial and other institutions	3,002,875	3,002,875
Government accounts	237,808,209	237,808,209
Term loans	109,000,000	109,000,000
Other liabilities	24,772,058	24,772,058
	<u>374,583,142</u>	<u>374,583,142</u>

As at 31 December 2016

## 23 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

The fair values of financial instruments on the consolidated statement of financial position are not significantly different from their carrying values.

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

**Level 1** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

**Level 3** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The available-for-sale investments comprise of investments in unquoted equity shares which do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, and are therefore stated at cost. In the opinion of the Group's management, the fair values of these unquoted equity shares are not expected to be significantly different from their carrying amounts. The investments are located in the Kingdom of Bahrain. The investments are held at cost less provision for impairment due to lack of suitable methods for determining reliable fair value.

## 24 RISK MANAGEMENT

### Overview

Risk is inherent in the Group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each business unit is accountable for the risk exposures relating to their responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to various operating risks.

### Risk management framework

#### *Board of Directors*

The Board of Directors is responsible for the overall risk management approach and ensuring that an effective risk management framework is in place. The Board of Directors approves and periodically reviews the risk management policies and strategies.

#### *Management Risk Committee*

The responsibility of the Management Risk Committee is to review and manage the credit and operational risks of the Group and to recommend on matters brought to it for consideration, including credit proposals or approvals.

#### *Risk Management Department*

The key element of the Group's risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The RMD is overseen by the Head of Risk.

The RMD, Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Review report to the Board Audit Committee. The Risk Review report describes the potential risk factors and comments as to how risk factors are being addressed by the Group.

**24 RISK MANAGEMENT (continued)**

**Risk management framework (continued)**

*Audit Committee*

The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment relating to the Group's capital.

*Internal Audit*

All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the strategies of the Group, the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings and recommendations to the Audit Committee.

*Treasury*

Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

**Risk Measurement**

The Group uses the standardised approach to measure its credit risk and market risk and the Basic Indicator approach for operational risk. In addition, the Group also applies various stress testing methodologies to assess its credit, liquidity, interest rate and market risk.

**Risk Mitigation**

The Board has put in place various limits and ratios to manage and monitor the risks in the Group. The Group uses suitable strategies to ensure the risk is maintained within the risk appetite levels as laid down by the Board.

**a) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's commercial loans and placements with financial institutions and receivables.

**i) Management of credit risk**

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures.

*Housing loans under Ministry's Housing Loan Program*

The decision to grant the loan is determined by the Ministry of Housing and communicated to the Group to make disbursements to the borrowers. There is no credit risk to the Group arising out of these loans. Losses, if any, arising from the impairment of such loans can be claimed from the Government. Consequently these loans attract zero risk weight. The Group monitors the sanctioned housing loans regularly and non performing loans are aggressively pursued by the Group and are written-off based on ministerial order. The housing loans under the Ministry's Housing Loan Program as at 31 December 2016 is BD 464,908,234 (31 December 2015: BD 438,980,041).

*Other loans*

Housing loans extended on a commercial basis to individuals are under a retail lending program approved by the Board of Directors with specific credit criteria being required to be met. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out to ensure that the loan proposal meets certain pre-approved credit criteria.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 24 FINANCIAL RISK MANAGEMENT (continued)

## a) Credit risk (continued)

## ii) Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position.

	<i>Gross maximum exposure 2016 BD</i>	<i>Gross maximum exposure 2015 BD</i>
Balances and placements with financial institutions	81,824,290	69,164,126
Loans - commercial loans	14,098,088	21,112,084
Other receivables	1,226,537	1,135,764
	<u>97,148,915</u>	<u>91,411,974</u>

The credit risk of social loans does not reside with the Group.

There were no renegotiated loans during either the year ended 31 December 2016 or 31 December 2015.

*Risk concentration of the maximum exposure to credit risk*

The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2016 was BD 51,140,709 (31 December 2015: BD 55,646,444).

## iii) Collateral

The Group holds collateral against loans in the form of mortgages on residential property and guarantees. The amount and type of collateral is dependent upon the nature of the loan. Collateral is not usually held against placements.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Group did not take possession of any collateral as a result of a default during either the year ended 31 December 2016 or 31 December 2015.

## iv) Credit quality per class of financial assets

The Group has laid down an internal rating framework for classifying its credit exposures. The following is an analysis of credit quality by class of financial assets:

	<i>Neither past due nor impaired BD</i>	<i>Past due but not impaired BD</i>	<i>Individually impaired BD</i>	<i>31 December 2016 BD</i>
Balances and placements with financial institutions	81,824,290	-	-	81,824,290
Loans - Commercial loans	10,597,043	2,619,166	2,328,179	15,544,388
Other receivables	1,226,537	-	-	1,226,537
	<u>93,647,870</u>	<u>2,619,166</u>	<u>2,328,179</u>	<u>98,595,215</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 24 FINANCIAL RISK MANAGEMENT (continued)

## a) Credit risk (continued)

## iv) Credit quality per class of financial assets (continued)

	<i>Neither past due nor impaired BD</i>	<i>Past due but not impaired BD</i>	<i>Individually impaired BD</i>	<i>31 December 2015 BD</i>
Balances and placements with financial institutions	69,164,126	-	-	69,164,126
Loans - commercial loans	16,280,351	4,332,836	1,825,931	22,439,118
Other receivables	1,135,764	-	-	1,135,764
	<u>86,580,241</u>	<u>4,332,836</u>	<u>1,825,931</u>	<u>92,739,008</u>

## v) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group's assets and liabilities are concentrated in the Kingdom of Bahrain.

## b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as interest rates, foreign exchange rates, equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

## i) Management of market risks

The Group does not assume trading positions on its assets and liabilities, and hence the entire consolidated statement of financial position is a non-trading portfolio.

## ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of the financial instruments. The Group's assets and liabilities that are exposed to interest rate risk include balances and placements with financial institutions, loans, deposits from financial and other institutions and term loans. Interest rate risk is managed principally through monitoring interest rate gaps.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases shown.

	<i>31 December 2016 BD</i>	<i>Changes in basis points (+/-)</i>	<i>Effect on net profit (+/-)</i>
<b>Assets</b>			
Balances and placements with financial institutions	79,104,048	100	791,040
Loans - commercial loans	14,098,088	100	140,981
<b>Liabilities</b>			
Deposits from financial and other institutions	35,500,000	100	(355,000)
Term loans	9,000,000	100	(90,000)
<b>Total</b>			<u>487,021</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

**24 FINANCIAL RISK MANAGEMENT (continued)****b) Market risk (continued)****ii) Interest rate risk (continued)**

	31 December 2015 BD	Changes in basis points (+/-)	Effect on net profit (+/-)
<b>Assets</b>			
Balances and placements with financial institutions	61,412,044	100	614,120
Loans - commercial loans	21,112,084	100	211,121
<b>Liabilities</b>			
Deposits from financial and other institutions	3,002,875	100	(30,029)
Term loans	9,000,000	100	(90,000)
<b>Total</b>			<u>705,212</u>

**iii) Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. Since the Group's assets and liabilities are denominated in the local currency and United States Dollars which is pegged to the Bahraini Dinar, the Group does not have any foreign exchange risk.

**iv) Equity price risk**

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group does not actively invest in private equity entities for trading purpose. Most of the investments are strategic in nature and the Group manages this risk through arranging representation on the Board of Directors within the investee company, wherever possible and by frequent monitoring via Risk Management.

The effect on equity and income (as a result of a change in the fair value of equity instruments at 31 December 2016) due to a reasonably possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is BD 713,543 (2015: BD 713,543) on equity and none on income since the Bank does not have any investment at fair value through profit or loss as at 31 December 2016 and 2015. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

**c) Liquidity Risk**

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

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Liquidity risk is managed by maintaining cash and cash equivalents and Government accounts at a high level to meet any future commitments.

**Analysis of liabilities**

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations.

	<i>Less than 3 Months BD</i>	<i>3 to 12 Months BD</i>	<i>Over 1 Year BD</i>	<i>Total BD</i>
<b>At 31 December 2016</b>				
Deposits from financial and other institutions	35,514,067	-	-	35,514,067
Term loans	550,005	50,606,742	20,370,744	71,527,491
<b>Total</b>	<u>36,064,072</u>	<u>50,606,742</u>	<u>20,370,744</u>	<u>107,041,558</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 24 FINANCIAL RISK MANAGEMENT (continued)

## c) Liquidity Risk (continued)

	<i>Less than 3 Months BD</i>	<i>3 to 12 Months BD</i>	<i>Over 1 Year BD</i>	<i>Total BD</i>
At 31 December 2015				
Deposits from financial and other institutions	3,003,926	-	-	3,003,926
Term loans	284,167	43,009,927	71,262,629	114,556,723
<b>Total</b>	<b>3,288,093</b>	<b>43,009,927</b>	<b>71,262,629</b>	<b>117,560,649</b>

## d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. In addition the Group trains the staff on a regular basis. The Group has undertaken an operational risk assessment in all divisions as part of internal risk assessment process as a part of its implementation of the Basle III Capital Accord.

## 25 CAPITAL ADEQUACY

## Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital adequacy ratio, calculated in accordance with the capital adequacy guidelines issued by the CBB, is as follows:

	<i>2016 BD</i>	<i>2015 BD</i>
Total eligible capital	<b>224,102,400</b>	215,477,565
<b>Total regulatory capital (A)</b>	<b>224,102,400</b>	215,477,565
<b>Total Risk-weighted exposure (B)</b>	<b>168,962,000</b>	142,026,021
<b>Capital adequacy ratio (A/B)</b>	<b>132.63%</b>	151.72%
<b>Minimum requirement</b>	<b>12.50%</b>	12.50%

Tier 1 capital comprises of ordinary share capital, contribution by a shareholder, statutory reserve and retained earnings brought forward. Certain adjustments are made to IFRS based results and reserves, as prescribed by the CBB.

Tier 2 capital, which includes qualifying subordinated liabilities and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

## 26 MATURITY PROFILE OF ASSETS AND LIABILITIES

Maturities of assets and liabilities have been determined based on the expected maturity from the consolidated statement of financial position date. The maturity profile of the assets and liabilities was as follows:

At 31 December 2016	<i>Less than 12 months BD</i>	<i>Over 12 Months BD</i>	<i>Total BD</i>
<b>Assets</b>			
Cash and cash equivalents	81,990,957	-	81,990,957
Investments	-	4,756,950	4,756,950
Loans	21,626,156	457,380,166	479,006,322
Investment in associates	593,311	2,815,107	3,408,418
Investment properties	-	44,549,755	44,549,755
Development properties	7,904,065	12,852,976	20,757,041
Other assets	1,212,150	1,125,063	2,337,213
	<u>113,326,639</u>	<u>523,480,017</u>	<u>636,806,656</u>
<b>Liabilities</b>			
Deposits from financial and other institutions	35,500,000	-	35,500,000
Government accounts	-	272,215,356	272,215,356
Term loans	49,000,000	20,000,000	69,000,000
Other liabilities	11,440,509	17,823,030	29,263,539
	<u>95,940,509</u>	<u>310,038,386</u>	<u>405,978,895</u>
<b>Net liquidity surplus</b>	<u>17,386,130</u>	<u>213,441,631</u>	<u>230,827,761</u>
<b>At 31 December 2015</b>			
	<i>Less than 12 months BD</i>	<i>Over 12 Months BD</i>	<i>Total BD</i>
<b>Assets</b>			
Cash and cash equivalents	69,328,350	-	69,328,350
Investments	-	4,756,950	4,756,950
Loans	20,519,241	439,572,884	460,092,125
Investment in associates	6,911,010	-	6,911,010
Investment properties	-	31,996,018	31,996,018
Development properties	-	22,219,173	22,219,173
Other assets	1,110,873	849,453	1,960,326
	<u>97,869,474</u>	<u>499,394,478</u>	<u>597,263,952</u>
<b>Liabilities</b>			
Deposits from financial and other institutions	3,002,875	-	3,002,875
Government accounts	-	237,808,209	237,808,209
Term loans	40,000,000	69,000,000	109,000,000
Other liabilities	8,696,281	16,858,603	25,554,884
	<u>51,699,156</u>	<u>323,666,812</u>	<u>375,365,968</u>
<b>Net liquidity surplus</b>	<u>46,170,318</u>	<u>175,727,666</u>	<u>221,897,984</u>

## 27 FUTURE FUNDING REQUIREMENTS

The Group's continued operations are dependent upon the continued financial support of the MOF, and the Government of the Kingdom of Bahrain.

## 28 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED)

### Islamic products

The Islamic banking activities of the group are conducted in accordance with Islamic Shari'a principles, as approved by the Shari'a Supervisory Board. The financial statements extracts relating to these activities are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), IFRS and Central Bank of Bahrain regulations, as applicable. The principal accounting policies are set out below:

#### *Ijara Muntahia Bittamleek and Ijarah income receivables*

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life whichever is lower.

Ijarah income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

#### *Wakala*

An agreement whereby one party provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in the case of default, negligence or violation of any of the terms and conditions of the Wakala.

#### *Investments - sukuk (Debt-type instruments at amortised cost)*

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

#### *Commodity Murabaha*

These are sales transaction agreements for commodities stated net of deferred profits and provision for impairment. The Group considers the promise made in the murabaha to the purchase order as obligatory.

#### *Revenue recognition*

Revenue is recognised on the above Islamic products as follows:

Ijarah income is recognised on a time apportioned basis over the Ijarah term and is stated net of depreciation.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

Income from investments is recognised when earned.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016

**28 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC DISCLOSURES (UNAUDITED)**  
(continued)

The Islamic Banking assets in compliance with Islamic Sharia principals are presented below:

	2016 BD (unaudited)	2015 BD (unaudited)
Ijara muntahia bittamleek - net	248,641,557	225,118,465
Ijara income receivables	222,889	214,889
Wakala placements	13,965,399	-
Wakala income receivable	12,241	-
Placements with financial institutions	7,065,796	9,507,426
Income receivable on placements	34,040	20,751
	<u>269,941,922</u>	<u>234,861,531</u>

The Islamic Banking liabilities in compliance with Islamic Sharia principals are presented below:

	2016 BD (unaudited)	2015 BD (unaudited)
Wakala takings	9,000,000	-
Wakala Profit payable	2,382	-
Commodity Murabaha	12,500,000	-
Commodity Murabaha profit payable	5,435	-
	<u>21,507,817</u>	<u>-</u>

Income and expenses recognised on Islamic banking operations are presented below:

	2016 BD (unaudited)	2015 BD (unaudited)
Income from Ijara Muntahia Bittamleek - net	7,774,279	6,604,412
Income from wakala and placements	322,709	91,506
Less: profit paid on Wakala	(63,882)	(62,296)
	<u>8,033,106</u>	<u>6,633,622</u>

**29 COMPARATIVES**

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