



National Bank of Bahrain BSC

Financial Statements - 31 December 2016



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

National Bank of Bahrain BSC
PO Box 106
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Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of National Bank of Bahrain BSC (the "Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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 *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances

(refer to the use of estimate and management judgement in note 2(d), impairment policy in note 2f(xiv), note 7 and disclosures of credit risk in note 3 of the financial statements)

Description

How the matter was addressed in our audit

We focused on this area because:

- of the significance of loans and advances (representing 35% of total assets) and the related estimation uncertainty to the financial statements;
- the Bank makes complex and subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment;
- large loans that are classified as non-performing are assessed individually by management for specific impairment based on knowledge of each individual borrower; and

We understood and tested key controls and focused on:

- the credit rating, monitoring process and assessment of the risk rating;
- past due ageing of the Bank's loans;
- the identification of impairment events;
- the governance controls over the impairment processes, including the continuous re-assessment by management of impairment models;
- the transfer of data between underlying source systems and the impairment models that the Bank operates; and
- the review and approval process that management has in place for the outputs of the Bank's impairment models.

In addition to testing the key controls, we have also performed the following procedures:

Specific impairment provision:

Our procedures included the following where specific impairment is calculated for individual loans:

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

- other homogenous loans are grouped together for impairment assessment on a collective basis.
- understanding and evaluating the key impairment triggers used by the Bank for identifying impairment events for the loan and advances portfolio;
- challenging whether all impairment events have been identified;
- for a sample of exposures that were subject to specific impairment assessment and focusing on those with the most significant potential impact on the financial statements:
 - we understood the basis of measuring the specific impairment provision and considered whether key judgements were appropriate given the borrowers' circumstances; and
 - we tested key inputs to the expected cash flows and valuation of collateral held, and challenged management as to whether the valuations were up to date and appropriate adjustments were taken on collateral valuation to account for forced sales value.

Collective impairment provision:

Our procedures included the following where impairment is calculated on a collective basis for portfolio of loans:

- understanding and assessing the appropriateness of the provisioning model for the Bank's portfolio;
- testing the inputs that is used in the model and sourced from underlying systems;
- testing ageing and credit classification of the loans on a sample basis; and
- where modelling assumptions were based on prior historic data, we evaluated whether the output of the models are consistent with the historical losses incurred in the portfolio. We then challenged the appropriateness of the adjustments made by management to reflect current market conditions, with reference to our own knowledge and to market and economic conditions.

We assessed the adequacy of the Bank's disclosure in relation to impairment of loans and advances by reference to the requirements of relevant accounting standards.

Valuation and impairment of investment securities

(refer to the use of estimate and management judgement in note 2(d), impairment policy in note 2f(xiv) and note 8 of the financial statements)

Description

How the matter was addressed in our audit

We focused on this area because:

- of the significance of investment securities (representing 37% of total assets) to the financial statements;
- of the total investment securities, a significant amount (representing 67% of total investment securities) comprise unquoted debt and equity securities at fair value, the measurement of which requires use of estimates and judgements; and

We understood and tested key controls and focused on:

- documenting and assessing the processes in place to record investment transactions and to value the quoted investment portfolio;
- agreeing the valuation of the quoted equity and debt securities to externally quoted prices;
- for unquoted equity securities, we challenged the appropriateness of the valuation methodology selected and compared key underlying financial data inputs to external sources, investee company financial statements and management information as applicable;
- for unquoted debt securities, we tested the valuation by evaluating the appropriateness of the valuation technique used and the inputs that are directly observable from market data;

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

- the Bank makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.

For impairment of debt securities, we:

- evaluated individual debt security for any signs of significant financial difficulty of the issuer;
- assessed if there has been a default or past due event;
- assessed individual debt security for a significant drop in external credit rating; and
- assessed if there had been a significant drop in fair value.

For impairment of available-for-sale equity securities, we:

- examined whether management has identified all investments that have experienced a decline in fair value below cost; and
- evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolonged decline in fair value below cost has led to recognition of impairment.

We assessed the adequacy of the Bank's disclosure in relation to impairment of investment securities by reference to the requirements of relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors report and other sections which forms part of the annual report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, 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.

Responsibilities of the board of directors for the financial statements

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

In preparing the financial statements, the board of directors is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

- 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 Bank'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.
- 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Bank to express an opinion on the 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 the board of directors 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.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements for the year ended 31 December 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

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

- a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith;
- b) the financial information contained in the board of directors report is consistent with the financial statements;
- c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Jaafar AlQubaiti.




National Bank of Bahrain BSC


Statement of Financial Position

As at 31 December

As at 31 December	Note	2016		2015	
		BD millions	US\$ millions	BD millions	US\$ millions
Assets					
Cash and balances at central banks		102.99	273.92	106.78	284.00
Treasury bills	4	486.80	1,294.69	462.94	1,231.23
Placements with banks and other financial institutions	5	160.90	427.93	185.45	493.21
Trading securities	6	0.35	0.93	6.04	16.06
Loans and advances	7	1,031.93	2,744.48	1,051.72	2,797.11
Investment securities	8	1,092.92	2,906.71	1,094.04	2,909.68
Investment in associates	9	50.08	133.18	37.75	100.40
Interest receivable and other assets	10	38.71	102.96	42.48	112.98
Property and equipment	19	12.42	33.03	12.51	33.27
Total assets		2,977.10	7,917.83	2,999.71	7,977.94
Liabilities					
Due to banks and other financial institutions	11	373.81	994.19	271.49	722.05
Borrowings under repurchase agreements	12	64.28	170.96	69.65	185.22
Customer deposits	13	2,088.35	5,554.12	2,247.02	5,976.13
Interest payable and other liabilities	14	35.96	95.64	46.79	124.43
Total liabilities		2,562.40	6,814.91	2,634.95	7,007.83
Equity					
Share capital	20	115.95	308.38	105.41	280.34
Shares under employee share incentive scheme	20	(1.64)	(4.36)	(1.72)	(4.57)
Share premium	21	2.53	6.73	1.21	3.22
Statutory reserve	21	57.98	154.19	51.75	137.63
General reserve	21	32.40	86.17	32.40	86.17
Other reserves and retained earnings	21	207.48	551.81	175.71	467.32
Total equity		414.70	1,102.92	364.76	970.11
Total liabilities and equity		2,977.10	7,917.83	2,999.71	7,977.94

The board of directors approved the financial statements consisting of pages 1 to 36 on 30 January 2017 and signed on their behalf by:


Farouk Yousuf Khalil Almoayyed
Chairman


Dr. Essam Abdulla Fakhro
Deputy Chairman


Jean Christophe Durand
Chief Executive Officer


The accompanying notes 1 to 43 are an integral part of these financial statements.

National Bank of Bahrain BSC

Statement of Profit or Loss

For the year ended 31 December

		2016		2015	
	Note	BD millions	US\$ millions	BD millions	US\$ millions
Interest income	23	88.14	234.41	76.13	202.48
Interest expense	23	(22.15)	(58.90)	(16.61)	(44.18)
Net interest income		65.99	175.51	59.52	158.30
Other income	24	30.88	82.14	34.88	92.77
Total operating income		96.87	257.65	94.40	251.07
Staff expenses	25	23.90	63.57	20.22	53.78
Other expenses		10.19	27.13	9.88	26.27
Total operating expenses		34.09	90.70	30.10	80.05
Profit before provisions		62.78	166.95	64.30	171.02
Impairment provisions on loans and advances	7	(2.08)	(5.53)	(7.74)	(20.59)
Impairment provisions on investments		(2.46)	(6.54)	(1.30)	(3.46)
Profit for the year		58.24	154.88	55.26	146.97
Basic and diluted earnings per share	38	50.9 fils	14 cents	48.5 fils	13 cents


Farouk Yousuf Khalil Almoayyed
Chairman


Dr. Essam Abdulla Fakhro
Deputy Chairman


Jean Christophe Durand
Chief Executive Officer

The accompanying notes 1 to 43 are an integral part of these financial statements.

National Bank of Bahrain BSC

Statement of Comprehensive Income

For the year ended 31 December

2016

2015

	BD millions	US\$ millions	BD millions	US\$ millions
Profit for the year	58.24	154.88	55.26	146.97
Other comprehensive income:				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation movement	(0.01)	(0.03)	(0.01)	(0.03)
Fair value reserve (available-for-sale securities):				
Net change in fair value	19.53	51.95	(39.65)	(105.45)
Net amount transferred to profit or loss	(1.89)	(5.03)	(4.96)	(13.19)
Share of other comprehensive income of associates	-	-	(0.36)	(0.96)
Total other comprehensive income for the year	17.63	46.89	(44.98)	(119.63)
Total comprehensive income for the year	75.87	201.77	10.28	27.34

The accompanying notes 1 to 43 are an integral part of these financial statements.

National Bank of Bahrain BSC

Statement of Changes in Equity

For the year ended 31 December 2016

In BD millions	Note	Share capital	Shares under employee share incentive scheme	Share premium	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings*	Total BD millions	US\$ millions
Balance at 1 January 2016		105.41	(1.72)	1.21	51.75	32.40	7.62	13.40	154.69	364.76	970.11
2015 appropriations											
Cash Dividend at 25%		-	-	-	-	-	-	-	(25.98)	(25.98)	(69.10)
Bonus shares issued 10%		10.54	(0.15)	-	-	(10.54)	-	-	0.15	-	-
Transfer to donations and charity		-	-	-	-	-	-	2.76	(2.76)	-	-
Transfer to general reserve / statutory reserve		-	-	-	0.96	15.81	-	-	(16.77)	-	-
Transfer to statutory reserve		-	-	-	5.27	(5.27)	-	-	-	-	-
Balance after 2015 appropriations		115.95	(1.87)	1.21	57.98	32.40	7.62	16.16	109.33	338.78	901.01
Employee shares allocated		-	0.23	1.32	-	-	-	-	-	1.55	4.13
Comprehensive income for the year:										-	-
Profit for the year		-	-	-	-	-	-	-	58.24	58.24	154.88
Other comprehensive income		-	-	-	-	-	17.64	-	(0.01)	17.63	46.89
Total comprehensive income for the year		-	-	-	-	-	17.64	-	58.23	75.87	201.77
Utilisation of donation and charity reserve		-	-	-	-	-	-	(1.50)	-	(1.50)	(3.99)
Balance at 31 December 2016	20-22	115.95	(1.64)	2.53	57.98	32.40	25.26	14.66	167.56	414.70	1,102.92

* The appropriations for the year 2016 will be submitted to the shareholders at the annual general meeting. These appropriations include BD 28.99 million for cash dividend at 25% (2015: 25%), BD 2.91 million for donations and contributions and a transfer of BD 17.39 million from retained earnings to general reserve. The Board of Directors has also proposed a one for ten bonus issue through utilization of BD 11.60 million from general reserve and the transfer of BD 5.80 million from General Reserve to Statutory Reserve .

For the year ended 31 December 2015

In BD millions	Note	Share capital	Shares under employee share incentive scheme	Share premium	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings	Total BD millions	US\$ millions
Balance at 1 January 2015		94.09	-	-	47.05	32.40	52.60	12.15	139.73	378.02	1,005.37
2014 appropriations											
Cash Dividend at 25%		-	-	-	-	-	-	-	(23.52)	(23.52)	(62.55)
Bonus shares issued 10%		9.41	-	-	-	(9.41)	-	-	-	-	-
Transfer to donations and charity		-	-	-	-	-	-	2.67	(2.67)	-	-
Transfer to general reserve		-	-	-	-	14.11	-	-	(14.11)	-	-
Transfer to statutory reserve		-	-	-	4.70	(4.70)	-	-	-	-	-
Balance after 2014 appropriations		103.50	-	-	51.75	32.40	52.60	14.82	99.43	354.50	942.82
Employee shares issued		1.91	(1.91)	-	-	-	-	-	-	-	-
Employee shares allocated		-	0.19	1.21	-	-	-	-	-	1.40	3.73
Comprehensive income for the year:										-	-
Profit for the year		-	-	-	-	-	-	-	55.26	55.26	146.97
Other comprehensive income		-	-	-	-	-	(44.98)	-	-	(44.98)	(119.63)
Total comprehensive income for the year		-	-	-	-	-	(44.98)	-	55.26	10.28	27.34
Utilisation of donation and charity reserve		-	-	-	-	-	-	(1.42)	-	(1.42)	(3.78)
Balance at 31 December 2015	20-22	105.41	(1.72)	1.21	51.75	32.40	7.62	13.40	154.69	364.76	970.11

The accompanying notes 1 to 43 are an integral part of these financial statements.

National Bank of Bahrain BSC

Statement of Cash Flows

For the year ended 31 December

		2016		2015	
	Note	BD millions	US\$ millions	BD millions	US\$ millions
Cash flows from operating activities					
Profit for the year		58.24	154.88	55.26	146.97
Adjustments to reconcile net income to net cash from operating activities :					
Depreciation		1.65	4.39	1.77	4.71
Impairment provisions on loans and advances	7	2.08	5.53	7.75	20.59
Impairment provisions on investments		2.46	6.54	1.30	3.46
Share of profit of associates		(2.99)	(7.95)	(4.58)	(12.19)
Profit for the year after adjustments		61.44	163.39	61.50	163.54
Changes in operating assets and liabilities					
Balances with central banks (mandatory cash reserves)		3.36	8.94	2.02	5.38
Treasury bills		(145.38)	(386.65)	(120.26)	(319.85)
Placements with banks and other financial institutions		(15.42)	(41.01)	12.54	33.35
Trading securities		5.69	15.13	(5.48)	(14.56)
Loans and advances		17.71	47.10	(276.44)	(735.23)
Investment securities		5.98	15.89	(137.13)	(364.72)
Interest receivable and other assets		0.88	2.34	(9.01)	(23.93)
Due to banks and other financial institutions		102.32	272.13	133.16	354.15
Borrowings under repurchase agreements		(5.37)	(14.28)	41.48	110.31
Customer deposits		(158.67)	(421.99)	92.17	245.15
Interest payable and other liabilities		1.74	4.63	5.33	14.19
Net cash used in operating activities		(125.72)	(334.38)	(200.12)	(532.22)
Cash flows from investing activities					
Investment in associates		(10.00)	(26.60)	(9.16)	(24.35)
Dividend received from associates		0.65	1.73	0.23	0.60
Purchase of property and equipment, net		(1.56)	(4.15)	(1.29)	(3.43)
Net cash used in investing activities		(10.91)	(29.02)	(10.22)	(27.18)
Cash flows from financing activities					
Dividends paid		(25.66)	(68.24)	(23.26)	(61.86)
Donations and charities paid		(1.50)	(3.99)	(1.42)	(3.78)
Net cash used in financing activities		(27.16)	(72.23)	(24.68)	(65.64)
Net decrease in cash and cash equivalents		(163.79)	(435.63)	(235.02)	(625.04)
Cash and cash equivalents at 1 January	15	372.65	991.10	607.67	1,616.14
Cash and cash equivalents at 31 December	15	208.86	555.47	372.65	991.10

The accompanying notes 1 to 43 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2016

1. ACTIVITIES

National Bank of Bahrain BSC, a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank is licensed by Central Bank of Bahrain as a conventional retail bank.

The overseas branches in Abu Dhabi (United Arab Emirates) and Riyadh (Kingdom of Saudi Arabia) operate under the laws of those respective countries. The Bank is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities and investment advisory services.

The Bank's registered address is National Bank of Bahrain BSC, P.O.Box 106, NBB Tower, Government Avenue, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Bourse, Manama, Kingdom of Bahrain.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

b. Basis of preparation

The financial statements of the Bank are presented in Bahraini Dinar (BHD) being the functional currency of the Bank. The US Dollar (US\$) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US dollar at the rate of BHD 0.376 to US\$ 1 (2015: BHD 0.376 to US\$ 1).

The financial statements have been prepared on the historical cost convention except for financial instruments at fair value through profit or loss, available-for-sale investments and derivative financial instruments which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the years presented except as described below:

i) New standards, amendments and interpretations effective from 1 January 2016:

The following standards, amendments and interpretations, which became effective as of 1 January 2016, are relevant to the Bank:

Disclosure Initiative (Amendments to IAS 1)

The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

Materiality - an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

Disaggregation and subtotals - line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.

Notes - confirmation that the notes do not need to be presented in a particular order.

OCI arising from investments accounted for under the equity method - the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

Notes to the Financial Statements

For the year ended 31 December 2016

The adoption of this amendment had no significant impact on the financial statements of the Bank.

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

The following standards and interpretations have been issued and are expected to be relevant to the Bank in future periods, with effective dates on or after 1 January 2017.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The application of this standard will have no significant impact on the financial statements of the Bank.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Bank currently plans to apply IFRS 9 initially on 1 January 2018.

The Bank has assessed the likely impact of this standard and expects no significant impact on the financial statements of the Bank. The actual impact of adopting IFRS 9 on the Bank's financial statements in 2018 will be dependent on the financial instruments that the Bank holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Bank to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

iii) Early adoption of standards

The Bank did not early adopt new or amended standards in 2016.

c. Foreign currencies

Foreign currency transactions:

Foreign currency transactions are initially recorded at rates of exchange prevailing at the value date of the transactions. Monetary assets and liabilities in foreign currencies are translated to respective functional currencies at the rates of exchange prevailing at the statement of financial position date. Realised and unrealised exchange gains or losses are recognised in the statement of profit or loss and included in "other income".

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised directly in other comprehensive income as part of fair value changes.

Foreign operations:

The assets and liabilities of the overseas branches are translated into Bahraini Dinar at spot exchange rate at the reporting date. The income and expenses of these overseas branches for the period are translated into Bahraini Dinar at average exchange rates. Differences resulting from the translation of the opening net investment in these overseas branches are recognised in other comprehensive income.

d. Use of estimates and management judgement

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2016

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the application of standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets within credit risk characteristics and objective evidence of impairment similar to those in the portfolio to assess impairment.

The Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances—for example selling an insignificant amount close to maturity—the Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

The Bank considers that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of significant or prolonged decline requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price for the specific equity instrument and also the general market index. In addition, the Bank considers impairment when there is evidence of deterioration in the financial health of the investee company, industry and sector performance, changes in technology and operational and financing cash flows.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

e. Accounting for income and expenses

i) Interest income and expenses are recognised in the statement of profit or loss on an accrual basis using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

ii) Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate. Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

iii) Dividend income is recognised when the right to receive a dividend is established.

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

Notes to the Financial Statements

For the year ended 31 December 2016

The Bank has different retirement benefit schemes for its employees in Bahrain and its overseas branches, which are in accordance with the relevant labour laws of the respective countries. The retirement benefit scheme is in the nature of a 'Defined Contribution Plan' for employees who are covered by the social insurance pension schemes in Bahrain and the overseas branches. Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws, based on length of service and final remuneration. This liability, which is unfunded, is considered as a 'Defined Benefit Plan' which represents a defined benefit scheme under IAS 19, and is provided for on the basis of the cost had all such employees left at the statement of financial position date. The cost of providing these retirement benefits is charged to the statement of profit or loss.

The Bank has a voluntary employees saving scheme. The Bank and the employees contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees who are the employees of the Bank. The Bank's share of contribution to this scheme is charged to the statement of profit or loss.

v) Other expenses are recognised in the period in which they are incurred on an accrual basis.

f. Financial assets and liabilities

i) Investments at fair value through profit or loss comprised of investments designated at inception at fair value through profit or loss and trading investments.

Investments designated at fair value through profit or loss: Investment securities which are acquired with an intent to hold for an indefinite period of time, and are managed, evaluated and reported internally on a fair value basis are designated as investments at fair value through profit or loss. These investments are carried at fair value based on quoted market prices, fund manager quotes or amounts derived from cash flow models as appropriate. Any unrealised gains and losses arising from changes in fair value are recognised in the statement of profit or loss.

Trading securities: Securities which are either acquired for the purpose of generating profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists are categorised as trading securities. These securities are initially recognised at fair value and subsequently measured at fair value based on quoted market bid prices. Realised and unrealised gains and losses on trading securities are included in the statement of profit or loss.

ii) Held-to-maturity investments

Held-to-maturity investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank positively intends, and is able, to hold until maturity. Held to maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

iii) Available-for-sale investments

Investments which are non-derivative and which are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates or concerns with respect to credit deterioration are categorised as available-for-sale investments. Available-for-sale investments which comprise both debt and equity investments are initially recognised at fair value, including transaction costs, and subsequently measured at fair value based on quoted market prices, brokers quotes or amounts derived from cash flow models as appropriate. Unrealised gains and losses arising from changes in the fair values of available-for-sale investments are recognised in other comprehensive income. The cumulative fair value adjustments on available-for-sale investments which are sold or otherwise disposed of and which had previously been recognised in other comprehensive income are transferred to the statement of profit or loss.

iv) Investment securities measured at amortised cost:

Investments measured at amortised cost are those non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Investment securities measured at amortised cost are stated at amortised cost, less provision for impairment.

v) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are stated at amortised cost, adjusted for changes in fair value under any effective hedging arrangement, less provision for impairment.

Notes to the Financial Statements

For the year ended 31 December 2016

vi) Customer deposits

Customer deposits are initially recognised at their fair value and subsequently measured at their amortised cost using the effective interest method.

vii) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the contractual terms.

Financial guarantees are initially recognised at fair value (which is the premium received on issuance). The premium received is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortised portion of the premium on these financial guarantees is included under other liabilities.

viii) Derivative financial instruments

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of profit or loss line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of profit or loss under other income.

In the case of cash flow hedges that meet the criteria of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion, if any, is recognised in the statement of profit or loss.

All derivative financial instruments are recognised in the statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

ix) Repos and Reverse repos

Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as Borrowings under Repurchase Agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised on the statement of financial position and the consideration paid is recorded in Placements with Banks and Other Financial Institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective yield method.

x) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances at central banks excluding mandatory cash reserves, placements with banks and other financial institutions that mature within three months of the date of placement, and short-term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value and mature within three months of the date of acquisition and are used by the Bank in the management of its short term commitments.

xi) 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.

xii) Fair value measurement

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

Notes to the Financial Statements

For the year ended 31 December 2016

When available, the Bank measures the fair value of a financial instrument using quoted market prices in an active market for that instrument. This includes listed equity and debt securities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For unlisted debt securities fair value is based on brokers quotes, recent arm's length transactions between knowledgeable, willing parties (if available) and discounted cash flow analyses with accepted economic methodologies for pricing financial instruments.

xiii) Categorisation of financial assets

The categorisation of financial assets into fair value through profit or loss, available-for-sale and held-to-maturity is done on the basis of the management intent at the time these securities are acquired and laid down investment policies.

xiv) Identification and measurement of impairment

At each reporting date, the carrying amount of the Bank's financial assets not carried at fair value through profit or loss is reviewed to determine whether there is objective evidence that a specific asset may be impaired. Financial asset(s) is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

Objective evidence that financial assets are impaired include significant financial difficulty of the borrower or issuer, default or delinquency of a borrower, the restructuring of a loan or advance by the Bank on terms the Bank would not consider otherwise, indicators that a borrower or issuer will enter bankruptcy or the disappearance of an active market for a security.

Impairment losses on assets carried at amortised cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced directly or through use of an allowance account. The amount of the loss shall be recognized in statement of profit or loss. When subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through statement of profit or loss.

The Bank considers evidence of impairment for loans and advances at both specific and collective level.

All individually significant loans and advances are assessed for specific impairment. Specific provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at the present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

Impairment and uncollectability is also measured and recognised on a portfolio basis for a group of loans and advances with similar credit risk characteristics, that are not individually identified as impaired, on the basis of estimates of losses that have been incurred but not yet specifically identified within the loans and advances portfolio at the statement of financial position date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

Loans and advances are written off after all reasonable attempts at restructuring and possible courses of action to achieve recovery have been exhausted and the possibility of any further recovery is considered to be remote.

Notes to the Financial Statements

For the year ended 31 December 2016

In case of debt securities classified as available-for-sale, the Bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. The amount of impairment loss is the difference between the acquisition cost, net of any principle repayment and amortisation, and the current fair value, less impairment loss previously recognised in the statement of profit or loss. If, in subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, then the impairment loss is reversed through the statement of profit or loss.

For an investment in equity security classified as available-for-sale, a significant or prolonged decline in fair value below cost is an objective evidence of impairment. Where there is an objective evidence of impairment, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the statement of profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

xv) De-recognition of financial assets and liabilities

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

- The rights to receive cash flows from the asset have expired
- The Bank 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 (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be de-recognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and the new financial asset is recognized at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

g. Impairment of non-financial assets

At each statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

Notes to the Financial Statements

For the year ended 31 December 2016

An impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

h. Investment in associates

Associates are those entities in which the Bank has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost, which includes the transaction costs. The financial statements of the Bank include its share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases. On cessation of significant influence, even if an investment in an associate becomes an investment in a joint venture, the entity does not re-measure the retained interest. When the Bank's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the associate.

i. Property and equipment

Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture and Equipment	3 to 8 years

The residual value and the useful life of property and equipment are reviewed periodically and, if expectations differ from previous estimates, the change is recognised prospectively in the statement of profit or loss over the remaining estimated useful life of the property and equipment.

j. Other provisions

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

k. Off-setting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the bank currently has a legally enforceable right to set-off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

l. Settlement date accounting

All "regular way" purchases and sales of financial assets except for derivatives are recognised on the settlement date i.e. the date the Bank receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative transactions are recognised on trade date i.e. the date the Bank contracts to purchase or sell.

m. Proposed appropriations

Dividends and other proposed appropriations are recognised as a liability in the period in which they are approved by the shareholders.

Notes to the Financial Statements

For the year ended 31 December 2016

n. Remuneration policy

Board of Directors - The remuneration of the Board of Directors is approved by the shareholders. In addition, directors are paid nominal fees for attending meetings of the sub-committees of Board.

Employees - The remuneration primarily consists of monthly salaries and allowances. The Bank also has a discretionary profit sharing scheme based on the net income for the year and considering the employees' performance during the year.

The above is in compliance with the sound remuneration practices of the Central Bank of Bahrain.

o. Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the other components of the Bank. All operating results of the operating segments are reviewed regularly by the Chief Executive Officer to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

p. Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

q. Income tax liability

The Bank's operations in Bahrain and Abu Dhabi are not liable to income tax. Riyadh branch is subject to income tax in accordance with the Saudi Income Tax Law. Income tax, if any, is charged to the statement of profit or loss.

r. Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans and advances that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'.

s. Fund administration

The Bank acts as a trustee/manager and in other capacities that result in holding or placing of assets on behalf of trust or other institutions. These assets and income arising thereon are not included in the Bank's financial statements as they are not assets of the Bank.

3. FINANCIAL RISK MANAGEMENT

The Bank is exposed to the following types of risks:

- credit risk
- liquidity risk
- market risk
- operational risk

Risk management framework

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk Group of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. This Group functions independent of the business units and reports directly to the Chief Executive Officer.

Notes to the Financial Statements

For the year ended 31 December 2016

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit division, which undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and to Management.

The Bank's risk management policies are established to identify and analyse the risk faced by the Bank, to set appropriate limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available) track record, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified

are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collaterals to provide a cushion against adverse movement in the market price of collateral.

The Credit Review Department of the Bank analyses risks and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 10-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liabilities management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

Notes to the Financial Statements

For the year ended 31 December 2016

Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardized method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk. Daily reports in this regard are submitted to senior management for review and decision making purposes.

Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address any potential risks.

The scope of the Bank's Internal Audit division encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are reviewed by the Internal Audit division and assessed for operational risks prior to their implementation. The Internal Audit division is operationally independent and reports significant internal control deficiencies to the Audit Committee.

Capital Management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Central Bank of Bahrain's (CBB) Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

Notes to the Financial Statements For the year ended 31 December 2016

4 TREASURY BILLS

Treasury bills are short-term in nature. These include treasury bills issued by the Government of Bahrain and Government of Saudi Arabia. They also include short-term Islamic Sukuk issued by the Government of Bahrain.

As at 31 December	2016		2015	
	BD'000	US\$'000	BD'000	US\$'000
Government of Bahrain	476,800	1,268,085	452,907	1,204,540
Government of Saudi Arabia	10,002	26,601	10,034	26,686
Total	486,802	1,294,686	462,941	1,231,226

5 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Placements with banks and other financial institutions are part of the Bank's money market activities and comprises short-term lending to banks and other financial institutions.

As at 31 December	2016		2015	
	BD'000	US\$'000	BD'000	US\$'000
Placements with banks	145,484	386,926	170,031	452,210
Placements with other financial institutions	15,416	41,000	15,416	41,000
Total	160,900	427,926	185,447	493,210

As at 31 December	2016		2015	
	BD'000	US\$'000	BD'000	US\$'000
Current and call accounts	12,352	32,851	7,436	19,777
Placements - Term	148,548	395,075	178,011	473,433
Total	160,900	427,926	185,447	493,210

6 TRADING SECURITIES

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Equity securities	349	928	406	1,080
Debt securities	-	-	5,633	14,981
Total	349	928	6,039	16,061

7 LOANS AND ADVANCES

a) As at 31 December	2016		2015	
	BD'000	US\$'000	BD'000	US\$'000
Loans and advances to non-banks	947,443	2,519,796	920,002	2,446,814
Loans and advances to banks	134,028	356,457	180,347	479,646
Less: Provision for impairment	(49,545)	(131,769)	(48,634)	(129,346)
Total	1,031,926	2,744,484	1,051,715	2,797,114

b) As at 31 December 2016, the amount of floating rate loans for which interest was being reset by the Bank on agreed dates and based on an agreed fixed margin over a benchmark interest rate, amounted to BD 515.3 million (US\$ 1,370.5 million) [31 December 2015: BD 540.73 million (US\$ 1,438.11 million)].

Notes to the Financial Statements For the year ended 31 December 2016

7 LOANS AND ADVANCES (Continued.....)

c) In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are defined as non-performing on which interest is not being accrued. The following is the ageing schedule of non-performing loans and advances. The table shows the time period since the date of last repayment of principal or interest by the customer.

As at 31 December	2016		2015	
	BD'000	US\$'000	BD'000	US\$'000
Over 3 months to 1 year	7,544	20,063	21,825	58,045
1 to 3 years	21,780	57,926	9,540	25,372
Over 3 years	54,253	144,290	60,173	160,035
Total	83,577	222,279	91,538	243,452

Loans that are "past due below 90 days but not impaired" are those for which contractual interest and principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Bank. As at 31 December 2016, loans past due below 90 days but not impaired amounted to BD 3.78 million (US\$ 10.04 million) [31 December 2015: BD 3.35 million (US\$ 8.91 million)].

d) The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be de-recognized and the renegotiated loan recognized as a new loan.

The Bank renegotiates loans to customers as a result of changes in anticipated cash flows and / or in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. During 2016, credit facilities amounting to BD Nil million (US\$ Nil million) were restructured [2015: BD 22.66 million (US\$ 60.27 million)]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections and amending the terms of loan covenants. Due to minor nature of concessions, there was no significant impact on the Bank's provisions on loans and advances impairment and present and future earnings.

e) The Bank holds collateral against loans and advances to customers in the form of lien over deposits, mortgage over properties and/or shares and sovereign/ bank guarantees. As at 31 December 2016, loans and advances amounting to BD 222.59 million (US\$ 591.99 million) [31 December 2015: BD 247.7 million (US\$ 658.78 million)] were fully collateralized and loans and advances amounting to BD 11.08 million (US\$ 29.47 million) [31 December 2015: BD 12.80 million (US\$ 34.04 million)] were partly collateralized with a collateral value of BD 4.14 million (US\$ 11.01 million) [31 December 2015: BD 6.83 million (US\$ 18.16 million)].

Notes to the Financial Statements For the year ended 31 December 2016

7 LOANS AND ADVANCES (Continued.....)

f. Exposure to credit risk

As at 31 December

	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Total carrying amount	1,031,926	2,744,484	1,051,715	2,797,114
1. Individually impaired				
Substandard	58,130	154,601	68,315	181,689
Doubtful	1,869	4,971	1,200	3,191
Loss	23,578	62,707	22,023	58,572
Individually impaired net of interest in suspense	83,577	222,279	91,538	243,452
Specific provision for impairment	(36,509)	(97,098)	(35,819)	(95,263)
Individually impaired carrying amount	47,068	125,181	55,719	148,189
2. Past due below 90 days but not impaired				
Gross amount	3,776	10,043	3,350	8,910
Collective impairment provision	(48)	(128)	(43)	(114)
Past due but not impaired carrying amount	3,728	9,915	3,307	8,796
3. Neither past due nor impaired by internal rating				
Rated 1	47,352	125,936	36,657	97,492
Rated 2	23,900	63,564	16,431	43,699
Rated 3	64,624	171,872	94,051	250,136
Rated 4	136,248	362,362	125,530	333,856
Rated 5	116,703	310,380	258,750	688,165
Rated 6	215,431	572,955	93,604	248,947
Rated 7	13,578	36,112	5,640	15,000
Not rated*	376,282	1,000,750	374,798	996,803
Gross amount	994,118	2,643,931	1,005,461	2,674,097
Collective impairment provision	(12,988)	(34,543)	(12,772)	(33,968)
Carrying amount of neither past due nor impaired	981,130	2,609,388	992,689	2,640,129
Total carrying amount	1,031,926	2,744,484	1,051,715	2,797,114

* Includes mainly consumer loans and other facilities that are not assigned any ratings at inception.

g) Impairment provisions on loans and advances

Movements during the year	Specific impairment provision		Collective impairment provision		Total impairment provisions	
	2016	2015	2016	2015	2016	2015
Amounts in BD '000						
At 1 January	35,819	27,705	12,815	11,154	48,634	38,859
Net charge for the year	1,074	5,145	1,010	2,600	2,084	7,745
Amounts written off against provision	(1,173)	(1,037)	-	-	(1,173)	(1,037)
Transfers, recoveries & write backs	789	4,006	(789)	(939)	-	3,067
At 31 December	36,509	35,819	13,036	12,815	49,545	48,634

The provisions relate to loans and advances to non-banks. In accordance with the Central Bank of Bahrain guidelines, interest on non-performing loans is reversed from income and is accounted for on a cash basis.

Notes to the Financial Statements For the year ended 31 December 2016

8 INVESTMENT SECURITIES

Investment securities comprise the following:

As at 31 December	2016		2015	
	BD'000	US\$'000	BD'000	US\$'000
Available-for-sale investments	1,106,784	2,943,574	1,072,506	2,852,410
Provision for impairment on available-for-sale investments	(14,164)	(37,670)	(12,340)	(32,819)
	1,092,620	2,905,904	1,060,166	2,819,591
Investments designated at fair value through profit or loss	303	806	712	1,894
Investment securities measured at amortized cost	-	-	33,160	88,191
Total investment securities	1,092,923	2,906,710	1,094,038	2,909,676

A) Available-for-sale investments

i. Breakdown of quoted and unquoted investments

As at 31 December	2016		2015	
	BD'000	US\$'000	BD'000	US\$'000
Quoted :				
Debt securities	320,614	852,697	338,504	900,277
Equity securities	53,409	142,045	61,371	163,221
Total	374,023	994,742	399,875	1,063,498
Provision for impairment on available for sale securities	(14,164)	(37,670)	(12,340)	(32,819)
Total net quoted securities	359,859	957,072	387,535	1,030,679
Unquoted :				
Debt securities	722,429	1,921,353	660,433	1,756,471
Equity securities	10,332	27,479	12,198	32,441
Total net unquoted securities	732,761	1,948,832	672,631	1,788,912
Total Available-for-sale investments	1,092,620	2,905,904	1,060,166	2,819,591

ii. Breakdown between fixed rate and floating rate available-for-sale debt securities

As at 31 December	2016		2015	
	BD'000	US\$'000	BD'000	US\$'000
Fixed rate debt securities	425,720	1,132,234	441,821	1,175,056
Floating rate debt securities *	617,323	1,641,816	557,116	1,481,692
Total	1,043,043	2,774,050	998,937	2,656,748

* Floating rate debt securities at 31 December 2016 include securities amounting to BD 608.25 million (US\$ 1,617.7 million) [31 December 2015: BD 545.95 million (US\$ 1,452 million)] of hedged fixed rate bonds.

iii. Breakdown of available-for-sale debt securities by rating

The ratings given below are by established rating agencies.

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
AAA	9,339	24,838	21	56
AA	12,304	32,723	23,815	63,338
A	36,384	96,766	37,701	100,269
BBB	18,138	48,239	930,091	2,473,646
BB *	965,015	2,566,529	1,795	4,774
Not-rated	1,863	4,955	5,514	14,665
Total	1,043,043	2,774,050	998,937	2,656,748

* 2016 represent mainly Government of Bahrain Bonds and Islamic Sukuks.

Notes to the Financial Statements For the year ended 31 December 2016

B) Investments designated at fair value through profit or loss

Fair value through profit or loss investment securities comprise investments as under:

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Investments in managed funds	303	806	712	1,894
Total	303	806	712	1,894

9 INVESTMENT IN ASSOCIATES

The Bank has a 29.06% shareholding in Bahrain Islamic Bank BSC. The Bahrain Islamic Bank is incorporated in the Kingdom of Bahrain and operates under a retail banking license issued by the Central Bank of Bahrain and carries out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a).

The Bank has a 34.84% interest in The Benefit Company BSC (c) incorporated in the Kingdom of Bahrain. The Benefit Company has been granted a license for ancillary services by the Central Bank of Bahrain to provide payment systems, Bahrain Cheque Truncation and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

During 2016, the Bank acquired 24.27% of the units issued by the Bahrain Liquidity Fund (BLF). BLF was set up in 2016 as an open ended fund registered as Private Investment Undertaking "PIU" as per Central Bank of Bahrain Rulebook Volume 7. The main objective of BLF is to add liquidity to Bahrain Bourse, which over a period of time should result in enhancing investors' confidence in the market's listed securities.

The Bank has recognised the above investments as equity accounted associates in accordance with IAS 28 "Investment in associates".

	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
At 1 January	37,749	100,395	24,602	65,430
Acquisition during the year	10,000	26,596	9,155	24,348
Share of Profit/ (loss)	2,985	7,939	4,584	12,191
Dividends received	(650)	(1,729)	(226)	(601)
Share of change in fair value reserve	(8)	(21)	(366)	(973)
At 31 December	50,076	133,180	37,749	100,395

Shares of Bahrain Islamic Bank are listed on the Bahrain Stock Exchange and the quoted price on 31 December 2016 was BD 0.123 (31 December 2015: BD 0.143) . The estimated fair value of the investment based on this price is BD 36.22 million (US\$ 96.33 million) [(31 December 2015: BD 41.91 million) (US\$ 111.46 million)].

The financial statements of the associates used for applying the equity accounting are as of 30 September 2016 which is different from the reporting date of the Bank. Accordingly, amounts have been adjusted for material transactions, if any, for the period from 30 September 2016 to the Bank's reporting date.

10 INTEREST RECEIVABLE AND OTHER ASSETS

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Interest receivable	22,251	59,178	17,955	47,753
Accounts receivable & prepayments	8,611	22,902	21,693	57,694
Positive fair value of derivatives	3,455	9,189	1,088	2,893
Others *	4,397	11,694	1,746	4,644
Total	38,714	102,963	42,482	112,984

* Others include BD 4.18 million (US\$ 11.12 million) [31 December 2015: BD 1.08 million (US\$ 2.92 million)] in respect of land and buildings acquired from customers and now held for disposal. The land and buildings are stated at lower of cost and net realisable value.

11 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions consists of short-term borrowings from banks and financial institutions.

As at 31 December	2016		2015	
	BD'000	US\$'000	BD'000	US\$'000
Current and call accounts	74,150	197,207	45,101	119,949
Term deposits	299,664	796,979	226,390	602,101
Total	373,814	994,186	271,491	722,050

12 BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements amounts to BD 64.28 million (US\$ 170.96 million) [31 December 2015: BD 69.65 million (US\$ 185.22 million)] and the fair value of the investment securities pledged as collateral amounts to BD 69.45 million (US\$ 184.71 million) [31 December 2015: BD 72.89 million (US\$ 193.86 million)].

13 CUSTOMER DEPOSITS

As at 31 December	2016		2015	
	BD'000	US\$'000	BD'000	US\$'000
Repayable on demand or at short notice	1,188,342	3,160,484	1,235,808	3,286,723
Term deposits	900,006	2,393,633	1,011,216	2,689,404
Total	2,088,348	5,554,117	2,247,024	5,976,127

Notes to the Financial Statements For the year ended 31 December 2016

14 INTEREST PAYABLE AND OTHER LIABILITIES

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Interest payable	18,809	50,024	16,363	43,518
Creditors & account payables	2,152	5,723	3,694	9,824
Deferred income	1,800	4,787	1,127	2,997
Employee benefits	11,066	29,431	11,097	29,513
Negative fair value of derivatives	719	1,912	13,366	35,548
Others	1,413	3,758	1,141	3,034
Total	35,959	95,635	46,788	124,434

15 CASH AND CASH EQUIVALENTS

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Cash and balances with central banks*	18,589	49,439	19,020	50,585
Treasury bills	48,242	128,303	169,764	451,500
Placements with banks and other financial institutions	142,025	377,726	181,988	484,011
Investment securities measured as amortized cost	-	-	1,880	5,000
Total	208,856	555,468	372,652	991,096

* Exclude balances with central banks of BD 84.40 million (US\$ 224.47 million) [31 December 2015: BD 87.76 million (US\$ 233.40 million)] maintained for the purpose of the cash reserve ratio requirement set by the central banks.

16 CONTINGENT LIABILITIES AND BANKING COMMITMENTS

The Bank issues commitments to extend credit and guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. The credit exposure for the contingent liabilities is reduced by obtaining counter guarantees and collateral from third parties. A large majority of these expire without being drawn upon, and as a result, the contractual amounts are not representative of the actual future credit exposure or liquidity requirements of the Bank.

Based upon the level of fees currently charged, taking into account maturity and interest rates together with any changes in the credit worthiness of counter parties since origination, the Bank has determined that the fair value of contingent liabilities and undrawn loan commitments is not material.

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Contingent liabilities				
Liabilities on confirmed documentary credits	27,492	73,117	30,775	81,848
Guarantees :				
Counter guaranteed by banks	43,815	116,529	38,241	101,705
Others	114,278	303,931	111,185	295,705
Sub-total	185,585	493,577	180,201	479,258
Banking commitments				
Undrawn loan commitments	58,195	154,774	-	-
Forward commitments:				
Securities purchased	-	-	20,000	53,191
Interbank Takings	-	-	16,168	43,000
Sub-total	58,195	154,774	36,168	96,191
Total	243,780	648,351	216,369	575,449

Notes to the Financial Statements For the year ended 31 December 2016

17 DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Bank utilises various derivative and foreign exchange financial instruments for trading, asset/liability management and hedging risks. These instruments primarily comprise futures, forwards, swaps and options.

Futures and forward contracts are commitments to buy or sell financial instruments or currencies on a future date at a specified price or yield, and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash on a future date or dates, interest rate commitments or currency amounts based upon differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the acquirer, for a fee, the right but not the obligation, to buy or sell within a limited period a financial instrument or currency at a contracted price.

In respect of the derivative and foreign exchange financial instruments, the contract/notional principal amounts do not represent balances subject to credit or market risk. Contract/notional principal amounts represent the volume of outstanding transactions and are indicators of business activity. These amounts are used to measure changes in the value of derivative products and to determine the cash flows to be exchanged. The replacement cost is the cost of replacing those financial instruments with a positive market value, together with an estimate for the potential future change in the value of the contract, and reflects the maximum credit loss for the Bank had all these counter parties defaulted. For written options, there is no credit risk, as they represent obligations of the Bank. The fair value represents the aggregate of the positive and negative cash flows which would have occurred if the rights and obligations arising from the instrument were extinguished by the Bank in an orderly market as at the reporting date. The fair values of derivative financial instruments such as interest rate swaps and forward rate agreements were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. The futures contracts, foreign exchange contracts and interest rate options were revalued using market prices and option valuation models as appropriate.

a) The following table summarises for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value :

Amounts in BD '000	Notional principal amount		Replacement cost		Fair value	
As at 31 December	2016	2015	2016	2015	2016	2015
Interest rate contracts						
Interest rate swaps	644,689	557,494	1,160	1,009	1,160	(13,366)
Sub-total	644,689	557,494	1,160	1,009	1,160	(13,366)
Foreign exchange contracts						
Outright spot and forward contracts	259,048	340,926	1,569	1,042	1,346	704
Swap agreements	313,758	59,333	726	607	230	238
Options	-	1,224	-	5	-	5
Sub-total	572,806	401,483	2,295	1,654	1,576	947
Total	1,217,495	958,977	3,455	2,663	2,736	(12,419)

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows :

Amounts in BD '000	2016			2015		
As at 31 December	Up to 1 year	More than one year	Total	Up to 1 year	More than one year	Total
Interest rate contracts						
Interest rate swaps	-	644,689	644,689	-	557,494	557,494
Sub-total	-	644,689	644,689	-	557,494	557,494
Foreign exchange contracts						
Outright spot and forward contracts	259,048	-	259,048	340,871	55	340,926
Swap agreements	313,758	-	313,758	59,333	-	59,333
Options	-	-	-	1,224	-	1,224
Sub-total	572,806	-	572,806	401,428	55	401,483
Total	572,806	644,689	1,217,495	401,428	557,549	958,977

Notes to the Financial Statements For the year ended 31 December 2016

18 CAPITAL COMMITMENTS

At 31 December 2016 commitments for capital expenditure amounted to BD 1.05 million (US\$ 2.79 million) [31 December 2015: BD 0.31 million (US\$ 0.82 million)].

19 PROPERTY & EQUIPMENT

	Land		Buildings		Furniture and equipment		Total	
	BD '000	US\$ '000	BD '000	US\$ '000	BD '000	US\$ '000	BD '000	US\$ '000
Cost	967	2,572	25,229	67,098	16,149	42,949	42,345	112,619
Accumulated depreciation	-	-	(17,360)	(46,170)	(12,564)	(33,416)	(29,924)	(79,586)
Net book value at 31 December 2016	967	2,572	7,869	20,928	3,585	9,533	12,421	33,033
Net Book value at 31 December 2015	967	2,572	8,494	22,590	3,049	8,109	12,510	33,271

The depreciation charge for 2016 amounted to BD 1.65 million (US\$ 4.39 million) [2015: BD 1.77 million (US\$ 4.71 million)].

The above includes capital work in progress at cost. When the asset is ready to use, the same is capitalised and depreciated in accordance with the Bank's policies.

20 SHARE CAPITAL

	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Authorised share capital				
1,500,000,000 (2015: 1,500,000,000) ordinary shares of 100 fils each	150,000	398,936	150,000	398,936

Issued and fully paid share capital

At 1 January 1,054,089,600 ordinary shares of 100 fils each	105,409	280,343	94,090	250,239
Bonus issue (one for ten shares held) *	10,541	28,034	9,409	25,024
Employee shares issued under the Employee Share Incentive Scheme ***	-	-	1,910	5,080
At 31 December 1,159,498,560 ordinary shares of 100 fils each (at 31 Dec 2015: 1,054,089,600 shares of 100 fils each) **	115,950	308,377	105,409	280,343

* The shareholders annual general ordinary and extra ordinary meeting for the year 2015 held on 9th March 2016 approved the increase of issued and fully paid capital by the issue of bonus shares at the rate of one additional share for every ten shares held amounts to BD 10.54 million.

** The Board of Directors has proposed to increase the issued and fully paid capital of the Bank to BD 127.54 million by the issue of bonus shares at the rate of one additional share for every ten shares held amounting to BD11.60 million. These shares will rank pari passu with all other shares for future dividends and distribution. This bonus issue is proposed to be made through utilisation of BD 11.60 million from General Reserve.

*** Employee Share Incentive Scheme

At the ordinary general meeting for the year 2014 which was held on 11 March 2015, and in pursuant to CBB's Sound Remuneration Practices, the Employee Share Incentive Scheme (the "Scheme") was approved. As a result, 19,104,000 ordinary shares amounting to BD 1.91 million were issued in 2015 to a special purpose vehicle, NBB Hawafiz SPC, to hold the beneficial interest of the shares under the scheme. Since then the Bank has allocated 4,156,520 ordinary shares (including bonus shares) to the employees under this Scheme. Un allocated shares under the Scheme are deducted from equity. The allocated shares under the Scheme are entitled to cash & stock dividends.

The distribution of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories is shown below:

	31 December 2016			31 December 2015		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	350,352,486	1,134	30.2%	332,729,966	1,165	31.5%
1% up to less than 5%	170,657,770	8	14.7%	140,915,720	7	13.4%
5% up to less than 10%	-	-	-	-	-	-
10% up to less than 20%	126,170,432	1	10.9%	114,700,394	1	10.9%
20% up to less than 50%	512,317,872	1	44.2%	465,743,520	1	44.2%
More than 50%	-	-	-	-	-	-
Total	1,159,498,560	1,144	100%	1,054,089,600	1,174	100%

The distribution of ordinary shares ownership based on nationality of the shareholder is shown below:

	31 December 2016			31 December 2015		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	1,097,510,160	1,029	94.6%	994,701,571	1,059	94.4%
Other GCC countries	61,196,769	89	5.3%	58,330,300	90	5.5%
Others	791,631	26	0.1%	1,057,729	25	0.1%
Total	1,159,498,560	1,144	100%	1,054,089,600	1,174	100%

44.2% of the Bank's share capital is held by the Bahrain Mumtalakat Holding Co, that is 100% owned by the Government of Bahrain. 10.9% of shares is owned by the Social Insurance Organisation, Kingdom of Bahrain. The rest of the share capital is widely held primarily by the citizens of and entities incorporated in the Kingdom of Bahrain.

21 RESERVES

a) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The Board of Directors has proposed to the shareholders to appropriate BD 5.80 million from General Reserve to Statutory Reserve.

b) General reserve

The reserve has been created in accordance with the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank.

Notes to the Financial Statements For the year ended 31 December 2016

c) Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired. Further, it includes Bank's share of other comprehensive income of associates.

d) Donation and charity reserve

Based on the recommendations of the Board of Directors, upon shareholders' approval an amount is transferred from the profit for the year to this reserve. The reserve represents the unutilised amount of the donations and charities approved by the shareholders.

e) Share premium

Under the Employee Share Incentive Scheme, the Bank has allocated 4,156,520 ordinary shares with a nominal value of BD 0.42 million to the employees, which has resulted in share premium of BD 2.53 million.

22 APPROPRIATIONS

The appropriations relating to the year 2015 were approved at the last annual general meeting held on 9 March 2016.

23. INTEREST INCOME / INTEREST EXPENSE

a) INTEREST INCOME

For the year ended 31 December

	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Loans and advances to non banks	34,457	91,641	33,501	89,098
Loans and advances to banks	3,403	9,051	1,805	4,801
Treasury bills	11,190	29,761	7,036	18,713
Placements with banks and other financial institutions	1,232	3,277	778	2,069
Investment securities	37,697	100,258	32,799	87,231
Derivative assets held for risk management	158	420	215	572
Total	88,137	234,408	76,134	202,484

b) INTEREST EXPENSE

For the year ended 31 December

	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Deposits from customers	18,688	49,702	15,255	40,572
Deposits from banks and other financial institutions	2,790	7,420	913	2,428
Borrowings under repurchase agreements	180	479	84	223
Derivative liabilities held for risk management	489	1,301	359	955
Total	22,147	58,902	16,611	44,178

24 OTHER INCOME

For the year ended 31 December

	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
a) Fees and commission income				
Fees and commission on loans and advances	9,557	25,418	10,832	28,809
Commission on sale of managed funds	145	386	164	436
Other fees and commission	7,083	18,838	6,501	17,290
Less: fees and commission paid	(4,442)	(11,814)	(3,650)	(9,707)
Sub-total	12,343	32,828	13,847	36,828
b) Other operating income				
Profit on sale of available for sale investments	4,597	12,226	6,407	17,040
(Loss) / gain on fair value through profit or loss investments	(114)	(303)	(5)	(13)
Dividend income	4,042	10,750	3,821	10,162
Profit on exchange dealing and transactions	5,249	13,960	5,227	13,902
Profit on trading securities and derivatives	37	98	392	1,043
Share of profit of associates	2,985	7,939	4,584	12,191
Other income	1,744	4,638	609	1,620
Sub-total	18,540	49,308	21,035	55,945
Total other income	30,883	82,136	34,882	92,773

Notes to the Financial Statements For the year ended 31 December 2016

25 STAFF EXPENSES

For the year ended 31 December

	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Salaries, allowances and bonuses	17,800	47,340	16,344	43,468
Social security & gratuity	2,058	5,473	2,013	5,354
Housing & other benefits	3,797	10,098	1,556	4,138
Others	248	660	309	822
Total	23,903	63,571	20,222	53,782

26 SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

As at 31 December

	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
US Dollar (long position) - unhedged	18,344	48,787	28,881	76,811
UAE Dirhams (long position) - unhedged	4,172	11,096	25,699	68,348
Saudi Riyal (long position) - unhedged	14,251	37,902	22,325	59,375
Qatari Riyal (long position) - unhedged	10,638	28,293	58,149	154,652

The Bahraini dinar has a fixed rate of exchange against the US dollar.

27 RELATED PARTY DISCLOSURES

Certain related parties (major shareholders, directors of the Bank and families and companies of which they are principal owners, key management personnel and associates) were customers of the Bank in the ordinary course of business. The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to him. Balances at the reporting date in regard to related parties and transactions during the year with related parties comprised the following:

Amounts in BD '000	Majority shareholder		Directors & key personal management		Associates	
	2016	2015	2016	2015	2016	2015
As at 31 December						
Loans and advances	185,516	164,308	14,051	4,890	-	37,661
Treasury bills, bonds and equities	1,444,757	1,368,860	-	-	50,076	37,749
Customers' deposits	105,029	277,184	46,521	59,599	4,425	5,321
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	50,896	60,288	5,915	14,832	-	-
For the year ended 31 December						
Loans advanced	657	167,067	18,892	4,127	-	37,600
Loans repaid	3,477	20,032	18,499	6,692	37,661	-
Net increase / (decrease) in overdrafts	24,028	(3,648)	8,768	(362)	-	-
Treasury bills, bonds and equities purchased	1,252,829	2,056,314	-	-	10,000	9,155
Treasury bills, bonds and equities matured/sold	1,176,932	1,968,439	-	-	-	-
Interest income	59,192	51,883	296	327	305	289
Interest expense	414	1,260	392	415	31	25
Share of profit of associates	-	-	-	-	2,985	4,584
Directors Remuneration and sitting fees	167	169	313	315	-	-
Short term employee benefits	-	-	5,485	3,258	-	-
Post employment retirement benefits	-	-	651	628	-	-

No impairment losses have been recorded during the year against balances outstanding with related parties and no specific allowance has been made for impairment losses on balances with related parties at the year end.

28 ASSETS UNDER ADMINISTRATION

Assets administered on behalf of customers to which the Bank does not have legal title are not included in the statement of financial position. At 31 December 2016, assets under administration amounted to BD 113.97 million (US\$ 303.11 million) [31 December 2015 : BD 98.43 million (US\$ 261.78 million)].

Notes to the Financial Statements For the year ended 31 December 2016

29 GEOGRAPHICAL DISTRIBUTION

Amounts in BD '000	Assets		Liabilities		Contingent liabilities and banking commitments	
	2016	2015	2016	2015	2016	2015
As at 31 December						
GCC	2,881,553	2,900,214	2,474,532	2,516,781	706,069	431,707
U.S.A.	12,224	17,174	10,375	11,902	260,401	212,506
Europe	54,561	43,590	66,101	93,348	490,002	332,198
Rest of the World	28,763	38,727	11,397	12,914	4,803	198,935
Total	2,977,101	2,999,705	2,562,405	2,634,945	1,461,275	1,175,346

30 DISTRIBUTION BY SECTOR

Amounts in BD '000	Assets		Liabilities		Contingent liabilities and banking commitments	
	2016	2015	2016	2015	2016	2015
As at 31 December						
Government	1,656,172	1,561,870	424,687	507,256	87,461	80,491
Manufacturing / trading	116,788	120,825	157,583	173,411	31,689	29,437
Banks / financial institutions	590,067	681,437	492,608	400,803	1,269,703	1,020,571
Construction	82,367	92,143	92,612	91,251	34,804	32,526
Personal	389,941	379,857	1,252,287	1,238,934	494	405
Others	141,766	163,573	142,628	223,290	37,124	11,916
Total	2,977,101	2,999,705	2,562,405	2,634,945	1,461,275	1,175,346

31 CONCENTRATION OF CREDIT RISK

The following is the concentration of credit risk by industry and geographical regions:

a) By Industry

Amounts in BD '000	Government		Manufacturing/ trading	Banks/financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries						
As at 31 December 2016								
Assets								
Balances at central banks	-	-	-	89,892	-	-	-	89,892
Treasury bills	476,800	10,002	-	-	-	-	-	486,802
Placements with banks and other financial institutions	-	-	-	160,900	-	-	-	160,900
Loans and advances	191,998	-	109,827	166,322	80,966	389,344	93,469	1,031,926
Investment securities	952,251	9,339	1,888	77,729	263	-	1,876	1,043,346
Interest receivable and other assets	15,778	4	188	4,226	287	597	16,991	38,071
Total assets	1,636,827	19,345	111,903	499,069	81,516	389,941	112,336	2,850,937
Contingent liabilities and banking commitments	87,461	-	31,689	52,208	34,804	494	37,124	243,780
Derivatives (notional)	-	-	-	1,217,495	-	-	-	1,217,495

Amounts in BD '000	Government		Manufacturing/ trading	Banks/financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries						
As at 31 December 2015								
Assets								
Balances at central banks	-	-	-	89,483	-	-	-	89,483
Treasury bills	452,907	10,034	-	-	-	-	-	462,941
Placements with banks and other financial institutions	-	-	-	185,447	-	-	-	185,447
Loans and advances	173,422	-	113,120	196,332	90,275	379,271	99,295	1,051,715
Investment securities	902,359	9,347	1,881	114,618	-	-	4,605	1,032,810
Interest receivable and other assets	13,790	12	145	2,968	62	586	24,106	41,669
Total assets	1,542,478	19,393	115,146	588,848	90,337	379,857	128,006	2,864,065
Contingent liabilities and banking commitments	80,491	-	29,437	61,594	32,526	405	11,916	216,369
Derivatives (notional)	-	-	-	958,977	-	-	-	958,977

The balances at the end of the year are representative of the position during the year and hence average balances have not been separately disclosed.

The above includes certain exposures to customers / counter parties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures as at 31 December 2016:

Counterparty	Counterparty type	Total Exposure
Counterparty A	Sovereign	1,490,777
Counterparty B	Sovereign	190,392
Counterparty C	Central Bank	185,999

Notes to the Financial Statements For the year ended 31 December 2016

31 CONCENTRATION OF CREDIT RISK (Contd.....)

(b) By geographical regions :

Amounts in BD '000

As at 31 December 2016	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	89,892	-	-	-	89,892
Treasury bills	486,802	-	-	-	486,802
Placements with banks and other financial institutions	135,549	1,596	23,092	663	160,900
Loans and advances	996,457	-	14,863	20,606	1,031,926
Investment securities	1,011,967	10,598	13,461	7,320	1,043,346
Interest receivable and other assets	34,758	30	3,146	137	38,071
Total assets	2,755,425	12,224	54,562	28,726	2,850,937
Contingent liabilities and banking commitments	218,489	86	21,046	4,159	243,780
Derivatives (notional)	487,580	260,315	468,956	644	1,217,495

Amounts in BD '000

As at 31 December 2015	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	89,483	-	-	-	89,483
Treasury bills	462,941	-	-	-	462,941
Placements with banks and other financial institutions	174,819	855	9,240	533	185,447
Loans and advances	1,019,199	-	11,507	21,009	1,051,715
Investment securities	984,367	10,647	20,744	17,052	1,032,810
Interest receivable and other assets	39,460	38	2,099	72	41,669
Total assets	2,770,269	11,540	43,590	38,666	2,864,065
Contingent liabilities and banking commitments	191,194	66	17,640	7,469	216,369
Derivatives (notional)	246,074	212,440	314,558	185,905	958,977

Notes to the Financial Statements For the year ended 31 December 2016

32 INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively, positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions.

Assets and liabilities are placed in maturity buckets based on the remaining period to the contractual repricing or maturity dates, whichever is earlier. Customers' deposits for which no specific contractual maturity or repricing dates exist are placed in ladders based on the Bank's judgment concerning their most likely repricing behavior.

The repricing profile and effective interest rate of the various asset and liability categories are as follows:

Amounts in BD '000	<i>Effective</i> <i>interest</i>	Up to	3 to 6	6 to 12	1 to 5	More than	Rate	
As at 31 December 2016	rate %	3 months	months	months	years	5 years	insensitive	Total
Assets								
Cash and balances at central banks	-	-	-	-	-	-	102,990	102,990
Treasury bills	2.66%	162,816	140,583	183,403	-	-	-	486,802
Placements with banks and other financial institutions	0.93%	133,132	15,416	-	-	-	12,352	160,900
Trading securities	-	349	-	-	-	-	-	349
Loans and advances	3.47%	545,398	36,882	47,305	321,624	80,717	-	1,031,926
Investment securities	4.07%	19,740	-	134,781	606,643	281,879	49,880	1,092,923
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	88,790	88,790
Property and equipment	-	-	-	-	-	-	12,421	12,421
Total assets		861,435	192,881	365,489	928,267	362,596	266,433	2,977,101
Liabilities and equity								
Due to banks and other financial institutions	1.29%	299,664	-	-	-	-	74,150	373,814
Borrowings under repurchase agreements	1.45%	64,284	-	-	-	-	-	64,284
Customer deposits	0.92%	985,054	180,288	51,430	618	-	870,958	2,088,348
Interest payable and other liabilities	-	-	-	-	-	-	35,959	35,959
Equity	-	-	-	-	-	-	414,696	414,696
Total liabilities and equity		1,349,002	180,288	51,430	618	-	1,395,763	2,977,101
On-balance sheet Interest rate sensitivity gap		(487,567)	12,593	314,059	927,649	362,596	(1,129,330)	-
Off-balance sheet Interest rate gap		644,689	-	-	(365,734)	(278,955)	-	-
Cumulative interest rate sensitivity gap		157,122	169,715	483,774	1,045,689	1,129,330	-	-

Notes to the Financial Statements For the year ended 31 December 2016

32 INTEREST RATE RISK (Continued.....)

Amounts in BD '000	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
As at 31 December 2015								
Assets								
Cash and balances at central banks	-	-	-	-	-	-	106,784	106,784
Treasury bills	1.54%	288,038	82,281	92,622	-	-	-	462,941
Placements with banks and other financial institutions	0.73%	178,011	-	-	-	-	7,436	185,447
Trading securities	-	6,039	-	-	-	-	-	6,039
Loans and advances	3.60%	492,040	68,122	53,843	346,468	91,242	-	1,051,715
Investment securities	3.65%	36,805	26,346	71,428	430,456	467,063	61,940	1,094,038
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	80,231	80,231
Property and equipment	-	-	-	-	-	-	12,510	12,510
Total assets		1,000,527	177,155	217,893	776,924	558,305	268,901	2,999,705
Liabilities and equity								
Due to banks and other financial institutions	0.92%	226,390	-	-	-	-	45,101	271,491
Borrowings under repurchase agreements	1.29%	69,642	-	-	-	-	-	69,642
Customer deposits	0.71%	1,007,684	143,963	175,108	53,085	-	867,181	2,247,021
Interest payable and other liabilities	-	-	-	-	-	-	46,791	46,791
Equity	-	-	-	-	-	-	364,760	364,760
Total liabilities and equity		1,303,716	143,963	175,108	53,085	-	1,323,833	2,999,705
On-balance sheet Interest rate sensitivity gap		(303,189)	33,192	42,785	723,839	558,305	(1,054,932)	-
Off-balance sheet Interest rate gap		557,494	-	-	(145,774)	(411,720)	-	-
Cumulative interest rate sensitivity gap		254,305	287,497	330,282	908,347	1,054,932	-	-

33. MARKET RISK

a) The Bank uses the Standardised Method for allocating market risk capital.

The following table shows the capital charges as at 31 December:

Risk Type	2016	2015
Amounts in BD '000		
Interest Rate Risk	1,077	1,627
Equities Risk	56	65
Foreign Exchange Risk	18	44
Total minimum capital required for market risk	1,151	1,736
Multiplier	12.5	12.5
Market Risk weighted exposure under the Standardized Method	14,388	21,703

b) The principal risk to which Bank's portfolio that is exposed is the risk of loss from fluctuations in future cash flows of financial instruments because of changes in market interest rates. The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200bps increase/ decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	2016		2015	
Amounts in BD '000	200 bps parallel increase	200 bps parallel decrease	200 bps parallel increase	200 bps parallel decrease
At 31 December	10,961	(10,961)	10,876	(10,876)
Average for the year	9,836	(9,836)	8,544	(8,544)
Minimum for the year	4,539	(4,539)	3,752	(3,752)
Maximum for the year	12,110	(12,110)	10,876	(10,876)

(c) The Bank holds investments in quoted equities as part of the available-for-sale investments. Equity risk is the potential adverse impact due to movements in individual equity prices or general market movements in stock markets. The Bank manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. The use of derivatives to manage interest rate risk is described in note 17.

Notes to the Financial Statements For the year ended 31 December 2016

34 SEGMENT INFORMATION

For management purposes, the Bank is organised into the following main strategic business units (SBUs) - Personal Banking, Bahrain Business Banking and Treasury & International Banking. These SBUs are the basis on which the Bank reports its operating segment information.

The Personal Banking and Bahrain Business Banking SBUs provide various banking products and services to the Bank's customers in Bahrain. The SBUs are differentiated based on their respective customer segments. Personal Banking caters to individuals. Bahrain Business Banking caters to governments, corporates and commercial enterprises.

The Treasury & International Banking SBU has the overall responsibility of managing the Bank's liquidity, interest rate, foreign exchange and market risk and provide various banking products and services to Bank's customers outside Bahrain.

Financial information about the operating segments is presented in the following table:

Amounts in BD '000	Personal Banking		Bahrain Business Banking		Treasury & International Banking		Total	
For the year ended 31 December	2016	2015	2016	2015	2016	2015	2016	2015
Interest income	20,471	21,275	12,073	10,494	55,593	44,365	88,137	76,134
Interest expense	(6,190)	(5,381)	(12,226)	(9,599)	(3,731)	(1,631)	(22,147)	(16,611)
Inter-segment interest income/(expense)	9,613	5,204	11,787	7,599	(21,400)	(12,803)	-	-
Net interest income	23,894	21,098	11,634	8,494	30,462	29,931	65,990	59,523
Other income	8,846	8,816	2,784	2,735	19,253	23,331	30,883	34,882
Operating income	32,740	29,914	14,418	11,229	49,715	53,262	96,873	94,405
Result	17,495	17,425	5,775	3,716	37,537	36,092	60,807	57,233
Unallocated corporate expenses							(2,572)	(1,971)
Profit for the year							58,235	55,262

Other information

Segment assets	430,080	418,599	480,777	456,550	2,066,244	2,124,556	2,977,101	2,999,705
Segment liabilities & Equity	975,923	1,052,058	1,105,549	1,261,891	895,629	685,756	2,977,101	2,999,705
Depreciation for the year	529	445	325	260	252	321	1,106	1,026
Provision for impaired assets	1,713	235	(155)	(97)	2,982	8,907	4,540	9,045

During 2016, the total capital expenditure amounted to BD 1.56 million (US\$ 4.15 million) [2015: BD 1.29 million (US\$ 3.43 million)].

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Bank's capital has been distributed among the segments in proportion to their total assets employed. Expenses of departments whose services are jointly utilised by more than one segment have been allocated to the relevant segments on an appropriate basis.

Inter-segment interest income and expense represent the interest cost on the excess funds which are automatically transferred by all the other business segments to Treasury and International Banking. The interest rate for calculating interest of such transfers is set once every three months separately for local and foreign currency and is based on the weighted average of market rates for various maturities for each currency.

While the Bank conducts its banking business primarily through its Strategic Business Units, it operates from various geographical locations:

- (i) Domestic operations through its network of branches in Kingdom of Bahrain and
- (ii) Overseas operations through its branches in the United Arab Emirates and Saudi Arabia.

Financial information about geographical locations is presented in the following table:

Amounts in BD '000	Domestic		Overseas		Total	
For the year ended 31 December	2016	2015	2016	2015	2016	2015
Operating income	94,339	92,056	2,534	2,349	96,873	94,405
Profit for the year	58,596	62,777	(361)	(7,515)	58,235	55,262
At 31 December						
Segment assets	2,912,887	2,926,700	64,214	73,005	2,977,101	2,999,705
Segment liabilities & equity	2,912,887	2,926,700	64,214	73,005	2,977,101	2,999,705

Notes to the Financial Statements For the year ended 31 December 2016

35. MATURITY PROFILE AND LIQUIDITY RISK

a) MATURITY PROFILE

The table below shows the maturity profile of total assets and liabilities based on contractual terms, except for Asset Backed Securities and Mortgage Backed Securities which are based on expected weighted average tenor as it is better representative of the product's maturity profile considering the inherent nature of the products.

Amounts in BD '000 As at 31 December 2016	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	102,990	-	-	-	-	-	-	-	102,990
Treasury bills	162,816	140,583	183,403	-	-	-	-	-	486,802
Placements with banks and other financial institutions	145,484	15,416	-	-	-	-	-	-	160,900
Trading securities	349	-	-	-	-	-	-	-	349
Loans and advances	344,888	66,656	55,539	302,899	158,793	85,451	16,760	940	1,031,926
Investment securities	10,669	1,820	134,781	283,369	330,507	251,126	18	80,633	1,092,923
Investment in associates, Interest receivable, other assets and property & equipment	3,343	58	1,988	6,289	5,073	5,668	639	78,153	101,211
Total assets	770,539	224,533	375,711	592,557	494,373	342,245	17,417	159,726	2,977,101
Liabilities and equity									
Due to banks and other financial institutions	373,814	-	-	-	-	-	-	-	373,814
Borrowings under repurchase agreements	64,284	-	-	-	-	-	-	-	64,284
Customer deposits	1,855,814	180,462	51,430	642	-	-	-	-	2,088,348
Interest payable & other liabilities	23,925	736	560	10,738	-	-	-	-	35,959
Equity	28,988	-	-	-	-	-	-	385,708	414,696
Total liabilities and equity	2,346,825	181,198	51,990	11,380	-	-	-	385,708	2,977,101

Amounts in BD '000 As at 31 December 2015	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	106,784	-	-	-	-	-	-	-	106,784
Treasury bills	288,038	82,281	92,622	-	-	-	-	-	462,941
Placements with banks and other financial institutions	185,447	-	-	-	-	-	-	-	185,447
Trading securities	6,039	-	-	-	-	-	-	-	6,039
Loans and advances	264,558	47,663	115,650	291,271	206,898	86,945	38,100	630	1,051,715
Investment securities	25,638	26,346	73,439	244,882	194,709	401,246	37,054	90,724	1,094,038
Investment in associates, Interest receivable, other assets and property & equipment	25,245	409	958	4,198	1,845	7,839	265	51,982	92,741
Total assets	901,749	156,699	282,669	540,351	403,452	496,030	75,419	143,336	2,999,705
Liabilities and equity									
Due to banks and other financial institutions	271,491	-	-	-	-	-	-	-	271,491
Borrowings under repurchase agreements	69,642	-	-	-	-	-	-	-	69,642
Customer deposits	1,874,673	144,158	175,108	53,085	-	-	-	-	2,247,024
Interest payable & other liabilities	33,834	621	520	11,813	-	-	-	-	46,788
Equity	26,352	-	-	-	-	-	-	338,408	364,760
Total liabilities and equity	2,275,992	144,779	175,628	64,898	-	-	-	338,408	2,999,705

b) LIQUIDITY RISK

The table below shows the undiscounted cash flows of the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Bank's expected cash flows on these instruments vary significantly from this analysis; for example customers are expected to maintain stable or increased balances in demand deposits and not all undrawn loan commitments are expected to be drawn down immediately. For derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) the gross nominal undiscounted cash inflow/(outflow) are considered while in the case of derivatives that are net settled the net amounts have been considered.

Amounts in BD '000 As 31 December 2016	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to banks and other financial institutions	373,814	374,621	374,621	-	-	-	-
Borrowings under repurchase agreements	64,284	64,480	64,480	-	-	-	-
Customers' deposits	2,088,348	2,099,112	1,864,797	180,006	53,651	658	-
Total non derivative liabilities	2,526,446	2,538,213	2,303,898	180,006	53,651	658	-
Derivative liabilities							
Trading: outflow	-	(570,781)	(177,580)	(288,673)	(104,528)	-	-
Trading: inflow	1,576	572,806	178,135	289,196	105,475	-	-
Total derivative liabilities	1,576	2,025	555	523	947	-	-
Banking commitments	-	-	(58,195)	-	-	-	58,195
Financial guarantees	-	(46,404)	(6,089)	(79)	(361)	(39,875)	-

Notes to the Financial Statements For the year ended 31 December 2016

b) LIQUIDITY RISK (Continued.....)

Amounts in BD '000 As 31 December 2015	Carrying amount	Gross nominal inflow / (outflow)	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to banks and other financial institutions	274,491	271,796	271,796	-	-	-	-
Borrowings under repurchase agreements	69,642	69,798	69,798	-	-	-	-
Customers' deposits	2,247,024	2,260,208	1,881,619	144,183	176,358	58,048	-
Total non derivative liabilities	2,591,157	2,601,802	2,223,213	144,183	176,358	58,048	-
Derivative liabilities							
Trading: outflow	-	(398,800)	(289,403)	(38,063)	(71,279)	(55)	-
Trading: inflow	947	400,259	290,093	38,183	71,928	55	-
Total derivative liabilities	947	1,459	690	120	649	-	-
Banking commitments	-	-	(20,000)	-	20,000	-	-
Financial guarantees	-	(46,338)	(5,888)	(140)	(40,300)	(10)	-

36 RETIREMENT BENEFIT COSTS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme in Bahrain and its overseas branches are recognized as an expense in the income statement. The Bank's contribution for 2016 amounted to BD 0.87 million (US\$ 2.31 million) [2015: BD 0.83 million (US\$ 2.21 million)].

Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws. The movement in the provision for leaving indemnities during the year is as follows:

Provision for leaving indemnities

Movements during the year	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
At 1 January	4,994	13,497	4,241	11,277
Charge for the year	2,797	7,439	1,167	3,104
Paid during the year	(4,692)	(12,479)	(414)	(1,101)
At 31 December	3,099	8,457	4,994	13,280

The Bank has a voluntary Staff Savings Scheme for Bahraini employees. The employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis to the Scheme. The Scheme is managed and administrated by a board of trustees who are the employees of the Bank. The Bank's contribution to the Scheme for 2016 amounted to BD 0.87 million (US\$ 2.31 million) [2015: BD 0.88 million (US\$ 2.34 million)]. As at 31 December 2016, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the Scheme, the net balance of the Scheme, amounted to BD 12.03 million (US\$ 31.99 million) [31 December 2015: BD 11.85 million (US\$ 31.52 million)].

37 LEGAL CLAIMS

As at 31 December 2016, legal suits pending against the Bank aggregated to BD 0.53 million (US\$ 1.41 million) [31 December 2015: BD 0.58 million (US\$ 1.54 million)]. Based on the opinion of the Bank's legal advisors and pending any final judgement on these suits, management believes that no liability is likely to arise from the suits and does not consider it necessary to carry any specific provision in this respect.

38 EARNINGS AND DIVIDEND PER SHARE

	2016		2015	
	BD millions	US\$ millions	BD millions	US\$ millions
Profit for the year	58.24	154.88	55.26	146.97
Dividend proposed at 25% (2015: 25 %)	28.99	77.10	26.35	70.08
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January	1,054.1	1,054.1	1,054.1	1,054.1
Effect of bonus shares issued during 2016	105.4	105.4	105.4	105.4
Less unallocated employee shares	(16.4)	(16.4)	(18.9)	(18.9)
Weighted average number of ordinary shares (millions) as at 31 December	1,143.1	1,143.1	1,140.6	1,140.6
Earnings per share	50.9 fils	14 cents	48.5 fils	13 cents
Dividend per share	25 fils	7 cents	25 fils	7 cents

Diluted earnings per share is same as basic earnings per share as the Bank does not have any potential dilutive instruments in issue.

Notes to the Financial Statements For the year ended 31 December 2016

39 ACCOUNTING CLASSIFICATION

a) The following table provides disclosure of the accounting classification for assets and liabilities:

Amounts in BD '000 As 31 December 2016	Trading	Designated at fair value through profit or loss	Loans and receivables	Available for sale	Others at amortised cost	Total carrying amount
Cash and balances at central banks	-	-	102,990	-	-	102,990
Treasury bills	-	-	486,802	-	-	486,802
Placements with banks and other financial institutions	-	-	160,900	-	-	160,900
Trading securities	349	-	-	-	-	349
Loans and advances	-	-	1,031,926	-	-	1,031,926
Investment securities	-	303	-	1,092,620	-	1,092,923
Interest receivable & other assets	-	-	38,714	-	-	38,714
Total assets	349	303	1,821,332	1,092,620	-	2,914,604
Due to banks and other financial institutions	-	-	-	-	373,814	373,814
Borrowings under repurchase agreements	-	-	-	-	64,284	64,284
Customer deposits	-	-	-	-	2,088,348	2,088,348
Interest payable & other liabilities	-	-	-	-	24,893	24,893
Total liabilities	-	-	-	-	2,551,339	2,551,339

Amounts in BD '000 As 31 December 2015	Trading	Designated at fair value through profit or loss	Loans and receivables	Available for sale	Others at amortised cost	Total carrying amount
Cash and balances at central banks	-	-	106,784	-	-	106,784
Treasury bills	-	-	462,941	-	-	462,941
Placements with banks and other financial institutions	-	-	185,447	-	-	185,447
Trading securities	6,039	-	-	-	-	6,039
Loans and advances	-	-	1,051,715	-	-	1,051,715
Investment securities	-	712	33,160	1,060,166	-	1,094,038
Interest receivable & other assets	-	-	42,482	-	-	42,482
Total assets	6,039	712	1,882,529	1,060,166	-	2,949,446
Due to banks and other financial institutions	-	-	-	-	271,491	271,491
Borrowings under repurchase agreements	-	-	-	-	69,642	69,642
Customer deposits	-	-	-	-	2,247,024	2,247,024
Interest payable & other liabilities	-	-	-	-	35,691	35,691
Total liabilities	-	-	-	-	2,623,848	2,623,848

39 b) Fair value hierarchy

The Bank measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

All financial instruments other than those disclosed in table below are classified as level 2.

(i) Loans and advances: The fair value approximates its carrying value since the majority of loans are floating rate loans which have been disbursed at market rates, and adequate provisions have been taken for those loans with doubt as to collectability.

(ii) Customers' deposits: The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is deemed to equal the amount repayable on demand, which is represented by the carrying value of the deposits. For interest bearing fixed maturity deposits, the Bank estimates that fair value will approximate their book value as the majority of deposits are of short term nature and as all deposits are at market rates.

(iii) Other financial assets and liabilities: The fair value is considered to approximate their book values due to their short term nature and negligible probability of credit losses.

Notes to the Financial Statements For the year ended 31 December 2016

39 b) Fair value hierarchy (Continued.....)

The table below analyses financial assets and liabilities carried at fair value, by valuation method.

Amount in BD '000's	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
At 31 December	2016				2015			
Financial assets held for trading	349	-	-	349	6,039	-	-	6,039
Financial assets designated at fair value through profit or loss:								-
Managed Funds	-	303	-	303	-	712	-	712
Available for sale financial assets:								-
Debt securities	320,614	722,429	-	1,043,043	338,504	660,433	-	998,937
Equity securities	39,245	-	10,332	49,577	49,031	-	12,198	61,229
Derivative financial assets	-	3,455	-	3,455	-	2,663	-	2,663
Total	360,208	726,187	10,332	1,096,727	393,574	663,808	12,198	1,069,580
Derivative financial liabilities	-	719	-	719	-	15,082	-	15,082

The following table analyses the movement in Level 3 financial assets during the year. There are no transfers between level 1, level 2 and level 3 of the fair value hierarchy.

Available for Sale Financial Assets

Amount in BD '000's	2016	2015
At 1 January	12,198	12,831
Total gains/(losses):		
in income statement	(41)	(20)
in other comprehensive income	(467)	727
Purchases	-	-
Settlements	(1,358)	(1,340)
Transfers into /(out) of Level 3	-	-
At 31 December	10,332	12,198
Total gain /(loss) for the year included in income statement for assets/liabilities held at 31 December	(41)	(40)

Level 3 comprises unquoted equity investments classified as available for sale which are measured at their net asset values based on the latest financial statements issued by the investee. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category financial assets is assessed as not significant to the other comprehensive income and total equity.

40 AVERAGE BALANCES

The following are average daily balances for full year :

	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Total assets	2,940,359	7,820,104	2,882,634	7,666,580
Total liabilities	2,579,681	6,860,854	2,507,486	6,668,846
Total equity	360,678	959,250	375,148	997,734
Contingent liabilities and undrawn loan commitments	210,614	560,144	145,570	387,154

Notes to the Financial Statements For the year ended 31 December 2016

41 CAPITAL ADEQUACY

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, United Arab Emirates and Saudi Arabia.

The capital adequacy ratio has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

The details of the Bank's capital adequacy calculations are shown below:

Based on year end balances	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Common Equity (CET1)	402,087	1,069,380	353,012	938,862
Additional Tier 1	-	-	-	-
Total Common Equity Tier 1 (CET)	402,087	1,069,380	353,012	938,862
Tier 2	12,381	32,928	12,815	34,082
Total Capital Base	414,468	1,102,308	365,827	972,944
Risk Weighted Exposure:				
Credit Risk	990,494	2,634,293	1,037,975	2,760,572
Market Risk	14,388	38,266	21,703	57,721
Operational Risk	166,100	441,755	160,339	426,434
Total Risk Weighted Exposure	1,170,982	3,114,314	1,220,017	3,244,727
CET 1 Ratio	34.3%		28.9%	
Total Capital Adequacy Ratio	35.4%		30.0%	

Based on average balances	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Common Equity (CET1)	351,329	934,386	366,106	973,686
Additional Tier 1	-	-	-	-
Total Common Equity Tier 1 (CET)	351,329	934,386	366,106	973,686
Tier 2	12,461	33,141	11,488	30,553
Total Capital Base	363,790	967,527	377,594	1,004,239
Risk Weighted Exposure:				
Credit Risk	1,008,990	2,683,484	992,748	2,640,287
Market Risk	18,375	48,870	24,829	66,035
Operational Risk	161,779	430,263	158,616	421,851
Total Risk Weighted Exposure	1,189,144	3,162,617	1,176,193	3,128,173
CET 1 Ratio	29.5%		31.1%	
Total Capital Adequacy Ratio	30.6%		32.1%	

42 DEPOSIT PROTECTION SCHEME

Deposits held with the Bank's Bahrain operations are covered by the regulation protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

43 COMPARATIVES

The corresponding figures have been regrouped where necessary to conform with the current year's presentation. The regrouping did not affect previously reported profit for the year or equity of the Bank.