FIRST ENERGY BANK B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017

Commercial registration	:	69089 (registered with Central Bank of Bahrain as a wholesale Islamic bank)
Registered Office	:	Bahrain Financial Harbour, West Tower, 20th Floor P.O. Box 209, Manama, Kingdom of Bahrain Telephone +973 17170000
Directors	:	Khaleefa Bin Butti Bin Omair, *Chairman* Dr. Faisel Ahmed Gergab, *Vice-Chairman* Matar Mohamed Al Blooshi Dr. Ali Mahmoud Hassan Mohamed Salim Omair Al Shamsi Ammar Ali Mohamed Jaber Khalid Jassim Kalban Abdulla Abdulkarim Showaiter Adel A. Aziz Al Jabr Abdulla Al Yousef Al Suwaidi
Chief Executive Officer	:	Mohamed Shukri Ghanem
Auditors	:	KPMG Fakhro, Bahrain

First Energy Bank B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2017

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Board of Directors' Report to the shareholders for the fiscal year ended 31 December 2017

Dear Shareholders,

In the name of Allah, the beneficent, the merciful, prayers and peace upon the last apostle and messenger, our prophet Mohammed and his companions.

On behalf of the Board of Directors, it is my privilege to present the annual report of First Energy Bank B.S.C. ("FEB") for the year ended 31 December 2017.

Despite the market challenges during the year, not least the dramatic drop in oil prices and intensified market volatility, FEB posted a positive overall performance as measured by its financial results. In 2017, we delivered on our promise to shareholders of returning the Bank to profitability after two years of reporting material losses.

Looking at the year, our focus has continued on maximizing the performance and prospects for the Bank's existing investments, securing profitable exits and undertaking new opportunities to generate income and create long term value for our stakeholders.

During 2017, we renewed our focus on strengthening the Bank's institutional capability, in order to support the realisation of our strategy and continued business growth. This involved the strategic alignment of people, products, processes and systems across the organisation. Building a solid and sustainable financial institution remains a key strategic objective of the Bank. The Board and the management team remain fully committed in achieving the refreshed strategy and ultimately generate sustainable returns for shareholders over the upcoming periods.

For the year 2017, FEB reported a net profit of US$ 20.1 million compared to a net loss of US$ 94.3 million in 2016. Total consolidated income for 2017 increased to US$ 39.7 million, as compared to US$ 14.6 million in 2016. Operating profit, before provisions, for the year was at US$ 20.1 million compared to a loss of US$ 3.0 million in 2016. Total provisions for 2017 were Nil as compared to US$ 91.3 million in 2016. Operating expenses for the year were US$ 19.5 million, compared with US$ 17.6 million in the prior year.

During 2017, the Bank completed the exit of its investment in Bulgaria, Neochim - a leading producer and distributor of fertilizers. The transaction resulted in a capital gain of US$ 4.6 million.

Further, the Board of FEB resolved to approve the proposed out of court settlement with GFH whereby the Bank swapped its investment in Energy City Libya and received 23 million shares in GFH worth of US$ 11.7 million as of execution date, reflecting an enhancement to the financial results of the Bank.

FEB's balance sheet remains robust. The Bank's Basel III total capital adequacy ratio at the end of the year was 53.9% and Tier 1 ratio was 53.7%. Liquidity also remained strong. At the end of the year, FEB had a liquidity ratio of 44% (46% in 2016).

We believe that our strategy is working and we will further its implementation throughout 2018. Going forward, we have an active pipeline of opportunities available to us, including those to generate strong and steady streams of income. Our efforts will continue to be concentrated in our core sectors, where our track record and reach have continued to grow.

I would like to express my sincere appreciation for the solid confidence and support of our shareholders; the continued encouragement and cooperation of our counterparties; and the ongoing advice and guidance of the regulatory and supervisory bodies in the various jurisdictions where FEB operates, especially the Central Bank of Bahrain. I also take this opportunity to pay special tribute to the commitment and professionalism of our management and staff.

Yours truly,

Khaleefa Buti Omair
Chairman of the Board of Directors

Bahrain Financial Harbour, West Tower, 20th Floor
P.O. Box 209, Manama, Kingdom of Bahrain
Tel +973 17170000 - Fax +973 17910876
info@1stenergybank.com

KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
First Energy Bank B.S.C. (c)
Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of First Energy Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of income, changes in equity, cash flows, and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in equity, and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

kpmg

KPMG Fakhro
Partner registration No. 100
13 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2017 USD 000's

	Note	**31 December 2017**	31 December 2016
ASSETS			
Cash and bank balances	3	12,100	8,944
Placements with financial institutions	4	84,953	138,255
Financing assets	5	131,482	184,497
Ijarah assets	6	78,700	205,037
Investment securities	7	407,569	441,695
Equity accounted investees	8	44,240	54,944
Other assets	9	36,406	29,369
Property and equipment	10	11,842	9,765
Assets held for sale	11	119,645	-
Total assets		**926,937**	1,072,506
Liabilities and equity			
LIABILITIES			
Placements from financial institutions	12	79,401	171,218
Bank financing	13	127,037	197,805
Other liabilities	14	20,498	27,977
Total liabilities		**226,936**	397,000
EQUITY			
Share capital	15	1,000,000	1,000,000
Treasury shares	25	(7,261)	(7,261)
Statutory reserve		11,808	9,802
Investments fair value reserve		5,664	4,715
Foreign exchange translation reserve		(2,171)	(5,640)
Accumulated losses		(355,202)	(367,594)
Total equity attributable to shareholders of the parent		**652,838**	634,022
Non-controlling interests		47,163	41,484
Total equity (page 5)		**700,001**	675,506
Total liabilities and equity		**926,937**	1,072,506

The consolidated financial statements consisting of pages 3 to 47 were approved by the Board of Directors on 13 February 2018.

Khaleefa Bin Butti Bin Omair Chairman	Abdulla Al Yousef Al Suwaidi Board Member	Mohamed Ghanem Chief Executive Officer

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2017 USD 000's

	Note	2017	2016
INCOME			
Income from investment securities	16	28,975	14,772
Income from financing and placements with financial institutions		12,423	6,165
Gain on disposal of equity accounted investee	8	4,618	-
Share of results of equity accounted investees	8	(3,129)	(2,251)
Net income from Ijarah assets	17	(6,765)	(11,579)
Other income	25	3,528	7,481
Total income		39,650	14,588
EXPENSES			
Staff cost	18	8,888	9,557
Finance cost		2,588	2,874
Depreciation and amortization		442	634
Other operating expenses	19	7,589	4,495
Total expenses		19,507	17,560
Profit / (loss) before impairment allowance		**20,143**	(2,972)
Impairment allowance	20	-	(91,298)
PROFIT / (LOSS) FOR THE YEAR		**20,143**	(94,270)
Attributable to:			
Shareholders of the parent		20,056	(88,827)
Non-controlling interests		87	(5,443)
		20,143	(94,270)

Khaleefa Bin Butti Bin Omair
Chairman

Abdulla Al Yousef Al Suwaidi
Board Member

Mohamed Ghanem
Chief Executive Officer

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017 USD 000's

2017	Share capital	Treasury shares	Statutory reserve	Investments fair value reserve	Foreign exchange translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	Equity attributable to shareholders of the parent								
At 1 January 2017	1,000,000	(7,261)	9,802	4,715	(5,640)	(367,594)	634,022	41,484	675,506
Changes in fair value of investments at fair value through equity	-	-	-	949	-	-	949	-	949
Effects of exchange rate difference on equity accounted investees	-	-	-	-	3,469	-	3,469	-	3,469
Change in ownership interest in subsidiary	-	-	-	-	-	(5,558)	(5,558)	5,558	-
Profit for the year	-	-	-	-	-	20,056	20,056	87	20,143
Total recognised income and expense for the year	**-**	**-**	**-**	**949**	**3,469**	**14,498**	**18,916**	**5,645**	**24,561**
Issuance of share capital in a subsidiary	-	-	-	-	-	-	-	62	62
Transfer to zakah and charity fund	-	-	-	-	-	(100)	(100)	-	(100)
Transfer to statutory reserve	-	-	2,006	-	-	(2,006)	-	-	-
Dividends of subsidiary	-	-	-	-	-	-	-	(28)	(28)
At 31 December 2017	**1,000,000**	**(7,261)**	**11,808**	**5,664**	**(2,171)**	**(355,202)**	**652,838**	**47,163**	**700,001**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017 (continued)

USD 000's

2016	Equity attributable to shareholders of the parent: Share capital	Treasury shares	Statutory reserve	Investments fair value reserve	Foreign exchange translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
At 1 January 2016	1,000,000	-	9,736	-	(5,076)	(278,601)	726,059	46,967	773,026
Changes in fair value of investments at fair value through equity	-	-	-	4,715	-	-	4,715	-	4,715
Effects of exchange rate difference on equity accounted investees	-	-	-	-	(564)	-	(564)	-	(564)
Loss for the year	-	-	-	-	-	(88,827)	(88,827)	(5,443)	(94,270)
Total recognised income and expense for the year	-	-	-	4,715	(564)	(88,827)	(84,676)	(5,443)	(90,119)
Transfer to zakah and charity fund	-	-	-	-	-	(100)	(100)	-	(100)
Transfer to statutory reserve	-	-	66	-	-	(66)	-	-	-
Acquisition of treasury shares	-	(7,261)	-	-	-	-	(7,261)	-	(7,261)
Dividends of subsidiary	-	-	-	-	-	-	-	(40)	(40)
At 31 December 2016	1,000,000	(7,261)	9,802	4,715	(5,640)	(367,594)	634,022	41,484	675,506

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2017 USD 000's

	Note	2017	2016
OPERATING ACTIVITIES			
Net profit / (loss) for the year		**20,143**	(94,270)
Adjustments for:			
Depreciation on Ijarah assets	6	7,376	11,760
Depreciation and amortization		442	641
Amortization of discount		(303)	(60)
Impairment allowance	20	-	91,298
Share of results of equity accounted investees	8	3,129	2,251
Gain on disposal of investment securities	16	(15,647)	(802)
Gain on disposal of equity accounted investees	8	(4,618)	-
Gain on asset swap transaction		-	(7,261)
Loss on disposal of property and equipment		3	-
Operating profit before changes in operating assets and liabilities		**10,525**	3,557
Net changes in operating assets and liabilities:			
Financing assets		53,015	(136,059)
Other assets		(6,975)	11,269
Placements from financial institutions		(91,817)	88,961
Other liabilities		(7,398)	(5,524)
Payment to charities		(181)	(132)
Net cash used in operating activities		**(42,831)**	(37,928)
INVESTING ACTIVITIES			
Purchase of investment securities		(250,929)	(68,932)
Proceeds from disposal / maturity of investment securities		302,371	79,688
Proceeds from disposal of joint venture		15,245	-
Additions to Ijarah assets		(684)	-
Receipt of insurance claim relating to Ijarah assets		-	1,300
Purchase of property and equipment and intangible assets		(2,584)	(252)
Net cash from investing activities		**63,419**	11,804
FINANCING ACTIVITIES			
Issuance of share capital in a subsidiary		62	-
Proceeds from bank financing		40,000	40,000
Dividend paid to non-controlling interests		(28)	(40)
Repayment of bank financing		(110,768)	(3,717)
Net cash (used in) / from financing activities		**(70,734)**	36,243
Net (decrease) / increase in cash and cash equivalents		**(50,146)**	10,119
Cash and cash equivalents at beginning of the year		147,199	137,080
Cash and cash equivalents at end of the year		**97,053**	147,199
Cash and bank balances	3	12,100	8,944
Placements with financial institutions with original maturity of 90 days or less	4	84,953	138,255
		97,053	147,199

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the year ended 31 December 2017

USD 000's

	2017	2016
Sources of zakah and charity funds		
Undistributed charity and zakah funds at the beginning of the year	104	136
Contributions by the Bank	100	100
Total sources of zakah and charity funds during the year	**204**	236
Uses of zakah and charity fund		
Contributions for charitable purposes	(181)	(132)
Total uses of funds during the year	**(181)**	(132)
Undistributed zakah and charity fund at end of the year	**23**	104

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

1 REPORTING ENTITY

First Energy Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 23 June 2008, under Commercial Registration No. 69089. The Bank operates under an Islamic Wholesale Banking license issued by the Central Bank of Bahrain (the "CBB") on 17 June 2008. The Bank's registered office is at Building 1459, Road 4626, Block 346, Manama, Kingdom of Bahrain.

The principal activities of the Bank and its subsidiaries (the "Group") include Shari'a compliant investment advisory services, participation in project development, joint ventures, mergers and acquisitions and the purchase of assets and asset portfolios primarily related to the energy sector. The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board to ensure adherence to Shari'a rules and principles in its transactions and activities.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except as noted in note 2(j).

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

New standards, amendments and interpretations issued but not yet effective

FAS 30 - Impairment, credit losses and onerous commitments
In 2017, AAOIFI has issued FAS 30 "*Impairment, Credit losses and onerous commitments"*. FAS 30 will replace FAS 11 "*Provisions and Reserves* and parts of FAS 25 *Investment in Sukuk, shares and similar instruments"* that deals with impairment. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments.

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach ("NRV") and 3) Impairment approach.

For the purpose of this standard, the assets and exposures shall be categorized, as under:

a. Assets and exposures subject to credit risk (subject to credit losses approach):
   i. Receivables; and
   ii. Off-balance sheet exposures;
b. Inventories (subject to net realizable value approach); and
c. Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach).

Credit losses approach for receivables and off balance sheet exposures uses a dual measurement approach, under which the loss allowance is measured as either a 12-month expected credit loss or a lifetime expected credit loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Expected credit losses
FAS 30 introduces a credit losses approach with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets which are subject to credit risk. A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Impairment loss is the amount by which the carrying amount of assets exceeds its recoverable amount.

The standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted. As mandated by the CBB, all Islamic banks have to adopt FAS 30 from 1 January 2018.

The Bank estimates the FAS 30 transition amount will have no impact in shareholders' equity relating to the implementation of ECL requirements in the Bank. The Bank continues to revise, refine and validate the impairment models and related process controls.

a. Basis of preparation

The consolidated financial statements are presented in United States Dollars (USD), which is also the principal currency of the Bank's operations. They are prepared on the historical cost basis except for the measurement at fair value of certain investments.

b. Statement of Compliance

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

c. Basis of consolidation

(i) Subsidiaries

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

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Basis of consolidation (continued)

(i) Subsidiaries (continued)

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

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

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

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

(ii) Equity-accounted investees
The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement,

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of post-acquisition profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

When the Group's share of losses exceed its interest in an associate or joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Dividends received from an equity accounted investee reduces the carrying amount of the investment.

for the year ended 31 December 2017 USD 000's

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Basis of consolidation (continued)

(iii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The significant subsidiaries are as follows:

Name of subsidiary	**Equity interest**		**Country of incorporation**	**Nature of business**
	2017	2016		
North Africa Investment Company	100%	100%	Kingdom of Bahrain	To hold the Group's 40% associate stake in Arab Drilling and Workover Company, Libya.
First Energy Oman	100%	100%	Cayman Islands	To hold 15% direct interest in Al Izz Islamic Bank in Oman.
FEB-Novus Aircraft Holding Company	98.50%	98.50%	Commonwealth of the Bahamas	To purchase and lease one A330-300 aircraft to Malaysian Airlines.
MENAdrill Investment Company	99.99%	65%	Cayman Islands	Development and lease of oil rigs
Al Dur Energy Investment Company	59%	59%	Cayman Islands	To hold 15% indirect interest in a power and water plant project in the Kingdom of Bahrain.
FEB Aqar S.P.C.	100%	100%	Kingdom of Bahrain	Real estate activities to own or lease property.
FEB Capital Ltd.	100%	-	United Arab Emirates	Financial institution

d. Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and placements with financial institutions with original maturities of 90 days or less.

e. Placements with and from financial institutions

These comprise inter-bank and over the counter placements made/ received using Shariah compliant murabaha and wakala contracts. Placements are usually short term and are stated at amortised cost.

f. Ijarah assets

Ijarah assets are stated at cost less accumulated depreciation and impairment allowance. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of ijarah assets to their residual values over their useful life.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Ijarah assets (continued)

Ijarah assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the ijarah asset (calculated as the difference between the net disposal proceeds and the carrying amount of the ijarah asset) is recognised in the consolidated income statement in the year the asset is derecognised.

The Group assesses at each reporting date whether there is objective evidence that Ijarah assets are impaired. Impairment losses are measured as a difference between carrying value of the asset and estimated recoverable amount. Impairment losses are recognised in the consolidated income statement.

g. Investment securities

Investment securities comprise equity type instruments (quoted and unquoted shares) and debt type instruments (sukuk and subordinated financing). Investment securities exclude investments in subsidiaries and equity accounted investments.

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments. Debt-type instruments are investments that have terms that provide fixed or determinable payments of profits and capital. Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Debt-type Instruments:

Investments in debt-type instruments are classified in the following categories: 1) at amortised cost or 2) at fair value through income statement (FVTIS).

A debt-type investment is classified and measured at amortised cost only if the instrument is managed on a contractual yield basis or the instrument is not held for trading and has not been designated at FVTIS. Debt-type investments at amortised cost include investments in medium to long-term sukuk.

Debt-type investment classified and measured at FVTIS include investments held for trading or designated at FVTIS. At inception, a debt-type investment managed on a contractual yield basis, can only be designated at FVTIS if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. The Group does not have any debt type instruments at FVTIS.

Equity-type investments:

Investments in equity type instruments are classified in the following categories: 1) at fair value through income statement (FVTIS) or 2) at fair value through equity (FVTE), consistent with its investment strategy.

Equity-type investments classified and measured at FVTIS include investments held for trading or designated at FVTIS.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'. The Group does not have any investments held for trading or FVTIS.

On initial recognition, the Bank makes an irrevocable election to designate certain equity instruments that are not designated at FVTIS to be classified as investments at fair value through equity. These include investments in certain quoted and unquoted equity securities.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Investment securities (continued)

(ii) Recognition and de-recognition

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

(iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given plus transaction costs. For FVTIS investments, transaction costs are expensed in the consolidated income statement.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the consolidated statement of changes in equity is transferred to the consolidated income statement.

Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation adjustments are recorded to allow for bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state the values of these investments.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Property and equipment
Property and equipment are stated at cost, net of accumulated depreciation and impairment allowance. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other income. Depreciation is calculated using the straight-line method over the estimated useful lives of 3 to 4 years other than freehold land, which is deemed to have an indefinite life.

i. Intangible assets
Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Intangible assets are amortised on a straight line basis in the consolidated income statement over its estimated useful life, from the date it is available for use. The estimated useful life of software for the current and comparative period is 3 years.

j. Assets held for sale
Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, depreciable assets are no longer depreciated.

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

l. Dividends
Dividends to shareholders are recognised as liabilities in the period in which they are declared.

m.Revenue recognition

- *Profit from murabaha and wakala contracts*
  Profit from murabaha and wakala contracts is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

- *Profit on subordinated finance*
  Profit on subordinated finance is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised using the effective profit rates over the period of the contract. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

- *Rental income from ijarah assets*
  Rental income from investment in ijarah assets is recognized as revenue on a straight line basis over the term of the lease.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

- *Income from investment in sukuk*
  Income from investment in sukuk is recognised on a time-apportioned basis using the effective profit rate method.

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

n. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to a charity fund which the Group uses for social welfare activities.

o. Zakah

Zakah is calculated on the zakah base of the Group in accordance with FAS 9 Zakah using the net invested funds method. Zakah is paid by the Group based on statutory reserve, investment fair value reserve, foreign exchange translation reserve and retained earning balances at the end of the year and remaining zakah is payable by shareholders. The Group calculates and notifies the shareholders of their pro-rate share of zakah payable. The calculation of zakah is approved by Shari'a Supervisory Board.

p. Employees' end of service benefits

(i) Short-term benefits

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

(ii) Post-employment benefits

Pensions and other social benefits for local employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Group are recognised as staff cost in the consolidated income statement when they are due. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Certain employees on fixed contracts are also entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date. The Bank also operates a voluntary employees saving scheme under which the Bank and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is in the nature of a defined contribution scheme and contributions by the Bank are recognised as an expense in the consolidated income statement when they are due. These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised as staff cost in the consolidated income statement.

q. Provisions

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Impairment of assets
The Group assesses at each reporting date whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that the loss event(s) have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial assets carried at amortised cost
For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

Investments carried at fair value through equity (FVTE)
In the case of investments in equity securities classified as FVTE, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists for FVTE investments, the unrealised re-measurement loss shall be transferred from equity to the consolidated income statement.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment. Currently, the Group does not have any investments under this category.

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of expected return and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Foreign currency transactions

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

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

Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into USD at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into USD at the spot exchange rates at the dates of the transactions. Foreign currency differences are recognised in the consolidated statement of changes in equity, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to NCI. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in statement of changes in equity, and accumulated in the translation reserve within equity.

t. Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

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

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

u. Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

w. Shari'a supervisory board
The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of three members appointed by the general assembly of shareholders.

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

y. Judgments and estimates
The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

Judgments:
(i) Classification of investments
Management decides on acquisition of an investment whether it should be classified as an equity-type instrument at fair value through statement of income, an equity-type instrument at fair value through equity or a debt-type instrument at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (refer note 2 (g) (i)).

Estimates:
(i) Impairment losses on financing contracts with customers
The Group reviews its financing contracts at each reporting date to assess whether an impairment allowance should be recorded in the consolidated financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

(ii) Impairment of equity-type instruments at fair value through equity
The Group treats equity-type instruments at fair value through equity as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

(iii) Useful life of Ijarah assets and equipment
The Group depreciates its Ijarah assets (note 2 (f)) and equipment (note 2 (h)) over the estimated useful life of the assets. The Group annually estimates useful life and residual values of assets using an independent third party valuer who has the right experience and qualification in valuing such assets.

(iv) Impairment of non-financial assets
The Group assesses impairment of non-financial assets according to its accounting policy as set out note 2 (r). Such assessment involves either obtaining a market value of underlying assets through independent valuer or calculating the present value of the estimated future cash flows. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ.

3 CASH AND BANK BALANCES

	31 December 2017	31 December 2016
Cash	12	12
Balances with banks	12,088	8,932
	12,100	8,944

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4 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
Commodity murabaha contracts	24,920	54,389
Wakala contracts	60,041	83,916
Total gross murabaha and wakala contracts	**84,961**	138,305
Less: Deferred profits	(8)	(50)
	84,953	138,255

The original maturity of commodity murabaha and wakala contracts are 90 days or less.

5 FINANCING ASSETS

	31 December 2017	31 December 2016
Gross commodity murabaha	144,568	201,461
Less: Deferred profits	(14,088)	(28,823)
Specific impairment allowance	(30,011)	(25,999)
	100,469	146,639
Ijarah financing	31,013	37,858
	131,482	184,497

6 IJARAH ASSETS

	Aircraft (i)	**Oil rigs (ii)**	**2017 Total**	2016 Total
Cost:				
At 1 January 2017	100,000	172,783	272,783	317,783
Additions	-	684	684	-
Reclassification (iv)	-	(173,467)	(173,467)	-
Derecognised				-
Impairment (iii)	-	-	-	(45,000)
At 31 December 2017	**100,000**	**-**	**100,000**	**272,783**
Depreciation:				
At 1 January 2017	17,700	50,046	67,746	55,986
Charge for the year	3,600	3,776	7,376	11,760
Reclassification (iv)	-	(53,822)	(53,822)	-
At 31 December 2017	**21,300**	**-**	**21,300**	**67,746**
Net book value: **As at 31 December 2017**	**78,700**	**-**	**78,700**	-
Net book value: As at 31 December 2016	**82,300**	**122,737**	-	**205,037**

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6 IJARAH ASSETS (continued)

(i) The Aircraft is mortgaged against term financing (refer note 13).

(ii) This represents two oil rigs. One rig with a carrying value of USD 61,643 thousand (2016: USD 63,567 thousand) was mortgaged against murabaha financing, which was fully settled on 2 March 2017 (refer note 13).

(iii) The Group commissioned a valuation of the rigs from an independent third party valuer with the relevant experience and qualification which resulted in additional impairment of USD Nil (2016: USD 45,000 thousand) (refer note 20).

(iv) In October 2017, the Board committed to a plan to sell the rigs. The Bank meets the requirements of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". And accordingly, the oil rigs have been reclassified as an asset held for sale (refer note 11).

7 INVESTMENT SECURITIES

	31 December 2017	31 December 2016
Equity type instruments - *At fair value through equity*		
- Quoted equity securities (at fair value) (i)	37,780	36,831
- Unquoted equity securities (at cost less impairment) (ii)	995	995
	38,775	37,826
Debt type instruments - *At amortised cost*		
- Quoted Sukuk (iii)	271,748	306,823
Collective impairment allowance	(2,496)	(2,496)
	269,252	304,327
- Subordinated financing (iv)	99,542	99,542
	368,794	403,869
Total investment securities	**407,569**	441,695

(i) During the year, no impairment allowance was recognised by the Bank (2016: USD 1,306 thousand) on quoted equity securities carried at fair value through equity (refer note 20).

(ii) Unquoted equity securities represent 15% indirect investment in Al Dur Power and Water Company BSC (c).

(iii) Quoted sukuk of USD 147 million (31 December 2016: USD 155 million) are pledged against general bank financing of USD 80 million (31 December 2016: USD 100 million) (refer note 13).

(iv) Subordinated financing represents funding provided to Al Dur Power and Water Company BSC (c).

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8 EQUITY ACCOUNTED INVESTEES

	31 December 2017	31 December 2016
Associates	113,925	118,206
Joint ventures	-	12,125
Impairment allowance	(69,685)	(75,387)
	44,240	54,944

Movement on the equity accounted investees during the year:

	2017	2016
At 1 January	54,944	76,880
Disposals during the year (v)	(10,627)	-
Share of results of equity accounted investees, net	(3,129)	(2,251)
Foreign exchange translation differences	3,469	(564)
Intercompany finance expense	(417)	(128)
Impairment allowance (note 20)	-	(18,993)
At 31 December	**44,240**	54,944

The management carried out an impairment assessment of its investments in equity accounted investees resulting in an estimated impairment provision for the year of USD Nil (2016: USD 18,993 thousand).

Equity accounted investees comprise the following:

Name	*Country of incorporation*	*% holding*	*Nature of business*
Associates:			
Arab Drilling and Workover Company (i)	Libya	40%	Lease of oil drilling rigs
Al Izz Islamic Bank (ii)	Oman	15.18%	Islamic retail banking
Adcan Pharma LLC (Adcan) (iii)	United Arab Emirates	40%	Pharmaceutical
Medisal for Pharmaceuticals Industry LLC (Medisal) (iv)	United Arab Emirates	45%	Pharmaceutical
Joint ventures			
Feboran AD (v)	Bulgaria	59.95%	Investment vehicle

Summarised financial information of associates and joint venture that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2017	2016
Total assets	1,560,863	1,134,930
Total liabilities	999,065	633,374
Total revenues	22,605	19,432
Total net loss	(43,252)	(40,636)

(i) Due to the political situation in Libya, the investments have been fully provided for.

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8 EQUITY ACCOUNTED INVESTEES (continued)

(ii) The information for 2017 presented in the table includes the results of Al Izz Islamic Bank based on the audited accounts for the period from 1 October 2016 to 31 December 2016 and management accounts for the period from 1 January 2017 to 30 September 2017.

(iii) This associate company is in the start-up phase. The information for 2017 presented in the table includes the results of Adcan based on the audited accounts for the period from 1 January 2016 to 31 December 2016 and management accounts for the period from 1 January 2017 to 30 September 2017.

(iv) The information for 2017 presented in the table includes the results of Medisal based on the audited accounts for the period from 1 January 2016 to 31 December 2016 and management accounts for the period from 1 January 2017 to 30 September 2017.

(v) During the year, the Bank sold its entire stake in the joint venture resulting in a gain on disposal of USD 4.6 million.

9 OTHER ASSETS

	31 December 2017	31 December 2016
Receivable from investee *	12,024	11,681
Ijarah rental receivable	17,767	10,921
Prepayments and advances	3,656	3,692
Intangible assets	122	60
Others	2,837	3,015
	36,406	29,369

* This represents an amount advanced to Al Dur Power and Water Company, an investment of the Group, to meet liability reserve account (LRA) funding requirement under a common term agreement, whereby the shareholders are required to fund such account for the purpose of meeting the repayment of senior debt obligations of the investee. This includes LRA fee accrual as of 31 December 2017.

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10 PROPERTY AND EQUIPMENT

31 December 2017	Land	Capital work-in-progress	Computers and equipment	Motor vehicles	Furniture and fixtures	2017 Total	2016 Total
Cost							
At 1 January	22,994	-	1,790	428	1,029	26,241	26,077
Additions	663	1,006	73	316	455	2,513	239
Disposals	-	-	(33)	(118)	(220)	(371)	(75)
At 31 December	**23,657**	**1,006**	**1,830**	**626**	**1,264**	**28,383**	26,241
Impairment	**13,794**	**-**	**-**	**-**	**-**	**13,794**	13,794
Depreciation							
At 1 January	-	-	1,349	310	1,023	2,682	2,204
Charge for the year	-	-	272	76	37	385	553
Disposal	-	-	(33)	(67)	(220)	(320)	(75)
At 31 December	**-**	**-**	**1,588**	**319**	**840**	**2,747**	2,682
Net book value							
At 31 December	**9,863**	**1,006**	**242**	**307**	**424**	**11,842**	9,765

Net book value							
At 31 December 2016	9,200	-	441	118	6	9,765	

11 ASSETS HELD FOR SALE

In October 2017, the Board committed to a plan to sell its oil rigs within the energy, power and infrastructure segment. Accordingly, the oil rigs are presented as an assets held for sale. Efforts to sell the asset have started and a sale is expected by September 2018.

A. Impairment losses relating to the assets held for sale

No impairment losses were recognized as the carrying amount is lower than the fair value less costs to sell of the oil rigs.

B. Assets and liabilities of assets held for sale

At 31 December 2017, the assets held for sale were stated at carrying amount and comprised the following:

	2017
Ijarah assets (note 6)	119,645
Assets held for sale	**119,645**

There were no recorded liabilities directly associated with the assets held for sale as of 31 December 2017.

C. Cumulative income or expenses included in OCI

There are no cumulative income or expenses included in OCI relating to the assets held for sale.

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11 ASSETS HELD FOR SALE (continued)

D. Measurement of fair values

i. Fair value hierarchy

The non-recurring fair value measurement for the assets held for sale of USD 160,000 thousand (before costs to sell of USD 1,196 thousand) has been categorized as a level 3 fair value based on the inputs to the valuation technique used.

ii. Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of the assets held for sale, as well as the significant unobservable inputs used.

Valuation technique	**Significant unobservable units**
In getting the market valuation of the rigs, the following factors were taken into consideration: - Newbuild prices for similar tonnage - The current oil price - The supply/demand dynamic for this type of tonnage - The orderbook and expected yard deliveries - The original build cost of the vessel - The age of the vessel - The design and specification of the vessels and quality of on-board - equipment suppliers - The increase/decrease in value of other similar vessels over time - Recent sales of similar tonnage - The current price ideas of buyers and sellers	There have been very few transactions in the market to provide benchmarks for the value of rigs leading to greater uncertainty over values. The external valuer expect prevailing market factors to negatively affect rig values in the short to medium term in light of weaker demand and the expected number of new build units for delivery over the next 2 - 3 years.

12 PLACEMENTS FROM FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
Commodity murabaha *	37,376	134,568
Wakala contracts	42,025	36,650
	79,401	171,218

* This includes USD 34,875 thousand (2016: USD 34,319 thousand) from an entity which is currently subject to regulatory sanctions. Accordingly, the funds have been frozen until such time sanctions are formally lifted.

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13 BANK FINANCING

	31 December 2017	31 December 2016
Financing for Ijarah assets		
Murabaha financing *	-	46,356
Term financing **	45,920	50,376
	45,920	*96,732*
General financing ***	81,117	101,073
	127,037	197,805

* Murabaha financing is secured by a mortgage on an oil rig (refer note 6). Murabaha financing has been obtained by Menadrill Investment Company, a 99.99% subsidiary of the Bank at a floating rate 3 month Libor plus 4% that was repaid on 2 March 2017.

** Term financing is secured by a mortgage over an aircraft (refer note 6). Term financing has been obtained by FEB-Novus Fin One Ltd Bahamas, a 100% subsidiary of FEB-Novus Aircraft Holding Company, Bahamas which is a 98.5% subsidiary of the Bank. Term financing is at a floating rate of 1 month Libor plus 3.20% (2016: 1 month Libor plus 3.45%) maturing on 23 January 2024.

*** This represent financing for general purpose secured by sukuk at rates ranging from 2.56% to 2.69% (2016: ranging from 1.85% to 2.56%) per annum. As of 31 December 2017, USD 40 million is maturing on 8 January 2018 and USD 40 million is maturing on 28 November 2018 (refer note 7).

14 OTHER LIABILITIES

	31 December 2017	31 December 2016
Unclaimed dividends	11,288	11,288
Employee-related accruals	5,866	6,589
Deferred income	1,393	4,351
Accounts payable	381	378
Customer current account	309	3,273
Accrued expenses	304	230
Zakat and charity payable	23	104
Provision for repairs and maintenance - rigs	-	1,000
Provision for restructuring costs	-	736
Others	934	28
	20,498	27,977

15 SHARE CAPITAL

	31 December 2017	31 December 2016
Share capital		
Authorised:		
2,000,000,000 ordinary shares of USD 1 each	**2,000,000**	2,000,000
Issued, subscribed and paid-up:		
1,000,000,000 ordinary shares (2016: 1,000,000,000) of USD 1 each	**1,000,000**	1,000,000

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

(ii) Names and nationalities of the major shareholders and the percentage of equity shares held in which they have an interest of 5% or more of outstanding shares are as follows:

		2017		2016	
	Country of incorporation	**% of holding**	**Share capital**	% of holding	Share capital
Tasameem Real Estate Co. LLC	UAE	21.85	218,504	21.85	218,504
Libyan Investment Authority *	Libya	16.25	162,500	16.25	162,500
Abu Dhabi Water and Electricity Authority	UAE	15.00	150,000	15.00	150,000
Emirates Islamic Bank PJSC	UAE	10.00	100,000	10.00	100,000
Mohammed Bin Hussain Bin Ali AlAmoudi	KSA	5.00	50,000	5.00	50,000
AlJabr Holding Co	KSA	5.00	50,000	5.00	50,000

* This entity is subject to regulatory sanctions.

(iii) The distribution schedule of equity shares, setting out the number of holders and percentage of holding is as follows:

At 31 December 2017 **Categories**	**Number of shares ('000)**	**Number of shareholders**	**% of total outstanding shares**
Less than 5% **	268,996	17	26.90%
5% up to less than 10%	100,000	2	10.00%
10% up to less than 25%	631,004	4	63.10%
	1,000,000	23	100%

At 31 December 2016 Categories	Number of shares ('000)	Number of shareholders	% of total outstanding shares
Less than 5% **	268,996	16	26.90%
5% up to less than 10%	100,000	2	10.00%
10% up to less than 25%	631,004	4	63.10%
	1,000,000	22	100%

** Includes 10,000 thousand treasury shares.

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16 INCOME FROM INVESTMENT SECURITIES

	2017	2016
Income from sukuk	11,546	12,189
Dividend income	1,782	1,781
Gain on disposal of sukuk	3,901	40
Gain on disposal of equity securities*	11,746	762
	28,975	14,772

*During the year, the Bank received and sold quoted shares in exchange for unquoted shares that were fully impaired resulting in a gain of USD 11,746 thousand.

17 NET INCOME FROM IJARAH ASSETS

	2017	2016
Rental income	8,219	10,593
Finance cost	(2,427)	(4,300)
Depreciation on Ijarah assets	(7,376)	(11,760)
Other operating expenses	(5,181)	(6,112)
	(6,765)	(11,579)

Other operating expenses relating to Ijarah assets comprise the following:

	2017	2016
Repairs and maintenance - rigs	3,327	2,443
Insurance - rigs	537	1,580
Professional and consultancy fee	721	1,075
Miscellaneous expenses	596	1,014
	5,181	6,112

18 STAFF COST

	2017	2016
Salaries and benefits	8,165	8,972
Other staff expenses	723	585
	8,888	9,557

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19 OTHER OPERATING EXPENSES

	2017	2016
Professional and consultancy fee	1,163	890
Travelling and related expenses	1,031	451
Cleaning, repairs and maintenance	785	773
Board and shari'a committee expenses	730	867
Rent and utilities	667	689
Telecommunication and postages	69	109
Advertising and marketing expenses	31	21
Foreign exchange loss / (gain)	2,294	(280)
Others	819	975
	7,589	4,495

20 IMPAIRMENT ALLOWANCE

	2017	2016
Ijarah assets - Oil rigs (note 6)	-	(45,000)
Financing assets (note 5)	-	(25,999)
Quoted equity securities at fair value through equity (note 7)	-	(1,306)
Equity accounted investees (note 8)	-	(18,993)
	-	(91,298)

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21 RELATED PARTY BALANCES AND TRANSACTIONS

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

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

31 December 2017	**Associates**	**Key management personnel/ Shari'a board members/ external auditors**	**Significant shareholders/ board members/ entities in which directors are interested**	**Total**
Assets				
Cash and bank balances	-	-	98	**98**
Placements with financial institutions	-	-	18,509	**18,509**
Financing assets	14,312	-	50,039	**64,351**
Equity accounted investees	44,240	-	-	**44,240**
Other assets	7	-	-	**7**
Liabilities				
Placements from financial institutions	-	-	34,875	**34,875**
Other liabilities	309	1,108	11,288	**12,705**

31 December 2016	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
Assets				
Cash and bank balances	-	-	139	139
Placements with financial institutions	-	-	3,001	3,001
Financing assets	10,448	-	100,078	110,526
Equity accounted investees	54,944	-	-	54,944
Other assets	10	-	-	10
Liabilities				
Placements from financial institutions	-	-	34,319	34,319
Other liabilities	3,273	762	11,288	15,323

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21 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

31 December 2017	**Associates**	**Key management personnel/ Shari'a board members/ external auditors**	**Significant shareholders/ board members/ entities in which directors are interested**	Total
Income				
Income from financing and placements with financial institutions	589	-	4,625	**5,214**
Gain on disposal of equity accounted investee	4,618	-	-	**4,618**
Share of results of equity accounted investees	(3,129)	-	-	**(3,129)**
Other income	16	-	2,668	**2,684**
Expenses				
Staff cost	-	2,772	-	**2,772**
Finance cost on placements from financial institutions	-	-	556	**556**
Other operating expenses	-	904	-	**904**

31 December 2016	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
Income				
Income from financing and placements with financial institutions	192	-	79	271
Share of results of equity accounted investees	(2,251)	-	-	(2,251)
Expenses				
Staff cost	-	1,889	-	1,889
Finance cost on placements from financial institutions	-	-	304	304
Other operating expenses	-	1,019	-	1,019
Impairment allowance	18,993	-	-	18,993

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21 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. The key management personnel compensation is as follows:

	2017	2016
Board member fees	634	792
Salary and other benefits	2,587	1,779
Post employment benefits	185	110
	3,406	2,681

22 ZAKAH

Zakah payable by the shareholders in respect of each share for the year ended 31 December 2017 is US cents 1.27 (2016: US cents 1.33) for every share held. US cents Nil (2016: US cents Nil) is payable by the Bank in their capacity as the agents of the shareholders and US cents 1.27 (2016: US cents 1.33) is the responsibility of the individual shareholders.

23 SEGMENT INFORMATION

a) Industry sector

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

2017	**Banks and financial institutions**	**Energy, power and infrastructure**	**Others**	**Total**
Assets				
Cash and bank balances	12,100	-	-	12,100
Placements with financial institutions	84,953	-	-	84,953
Financing assets	-	-	131,482	131,482
Ijarah assets	-	-	78,700	78,700
Investment securities	145,786	126,586	135,197	407,569
Equity accounted investees	28,768	-	15,472	44,240
Other assets	7	13,184	23,215	36,406
Property and equipment	-	-	11,842	11,842
Assets held for sale	-	119,645	-	119,645
Total assets	**271,614**	**259,415**	**395,908**	**926,937**
Liabilities				
Placements from financial institutions	79,401	-	-	79,401
Bank financing	127,037	-	-	127,037
Other liabilities	-	394	20,104	20,498
Total liabilities	**206,438**	**394**	**20,104**	**226,936**

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23 SEGMENT INFORMATION (continued)

2016	Banks and financial institutions	Energy, power and infrastructure	Others	Total
Assets				
Cash and bank balances	8,944	-	-	8,944
Placements with financial institutions	138,255	-	-	138,255
Financing assets	-	-	184,497	184,497
Ijarah assets	-	122,737	82,300	205,037
Investment securities	224,690	100,537	116,468	441,695
Equity accounted investees	30,524	-	24,420	54,944
Other assets	6	13,031	16,332	29,369
Property and equipment	-	-	9,765	9,765
Total assets	402,419	236,305	433,782	1,072,506
Liabilities				
Placements from financial institutions	171,218	-	-	171,218
Bank financing	197,805	-	-	197,805
Other liabilities	-	1,391	26,586	27,977
Total liabilities	369,023	1,391	26,586	397,000

b) Geographic sector

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

2017	**MENA**	**Europe**	**America**	**Asia**	**Total**
Assets					
Cash and bank balances	10,478	1,622	-	-	12,100
Placements with financial institutions	84,953	-	-	-	84,953
Financing assets	131,482	-	-	-	131,482
Ijarah assets	-	-	-	78,700	78,700
Investment securities	338,779	52,737	-	16,053	407,569
Equity accounted investees	44,240	-	-	-	44,240
Other assets	35,115	-	26	1,265	36,406
Property and equipment	11,842	-	-	-	11,842
Assets held for sale	-	-	119,645	-	119,645
Total assets	**656,889**	**54,359**	**119,671**	**96,018**	**926,937**
Liabilities					
Placements from financial institutions	79,401	-	-	-	79,401
Bank financing	-	127,037	-	-	127,037
Other liabilities	19,556	-	385	557	20,498
Total liabilities	**98,957**	**127,037**	**385**	**557**	**226,936**

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23 SEGMENT INFORMATION (continued)

2016	MENA	Europe	America	Asia	Total
Assets					
Cash and bank balances	6,559	2,385	-	-	8,944
Placements with financial institutions	134,714	3,541	-	-	138,255
Financing assets	184,497	-	-	-	184,497
Ijarah assets	-	-	122,737	82,300	205,037
Investment securities	395,673	26,047	-	19,975	441,695
Equity accounted investees	48,521	6,423	-	-	54,944
Other assets	27,660	-	210	1,499	29,369
Property and equipment	9,765	-	-	-	9,765
Total assets	807,389	38,396	122,947	103,774	1,072,506
Liabilities					
Placements from financial institutions	171,218	-	-	-	171,218
Bank financing	46,356	151,449	-	-	197,805
Other liabilities	25,925	-	1,382	670	27,977
Total liabilities	243,499	151,449	1,382	670	397,000

The Group's revenue and expenses are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

24 COMMITMENTS

	31 December 2017	31 December 2016
Financing commitments	939	1,866
Operating lease commitments	568	626
	1,507	2,492

25 OTHER INCOME

In 2016, the Bank entered into a swap agreement with one of its shareholders whereby, the Bank acquired 10,000,000 treasury shares (at USD 7,261 thousand) and 100,000 equity shares (at USD 125 thousand) of one of its subsidiaries in exchange for 200,000 shares in an existing unquoted equity investment which is fully provided for. Since the shares given up were fully provided, the Bank recognised a gain of USD 7,261 thousand on this swap transaction and presented as 'Other income' in the consolidated income statement.

The shareholders in their meeting on 10 May 2016 approved the acquisition of treasury shares.

26 RISK MANAGEMENT

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

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

The Bank has a risk management framework in place for managing these risks which are constantly evolving as the business activities change in response to credit, market, product and other developments.

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

Risk management framework
The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions, products and services offered.

The Management Risk Committee is responsible for recommending policy and framework to the Board Audit and Risk Committee, which in turn is responsible for reviewing and recommending to the Board for approval. The Risk Management Department is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The principal risks associated with the Group's business and the related risk management processes are as follows:

(a) Liquidity risk
Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Board of Directors approves all significant policies and strategies related to the management of liquidity. Management Committees including the Asset Liability Committee and the Management Risk Committee review the liquidity profile of the Group on a regular basis and any material change in the current or prospective liquidity position is notified to the Board through the Board Audit and Risk Committee.

The Risk Management Department monitors the liquidity profile of the Bank on an ongoing basis to ensure that the liquidity gap is within regulatory limits and the liquidity gap and key liquidity ratios are within the internal Board approved limits.

Details of the Group's liquid assets to total assets at the reporting date and during the reporting period were as follows:

	2017	2016
At 31 December	**0.44**	0.46
Average for the year	**0.45**	0.46

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26 RISK MANAGEMENT (continued)

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

At 31 December 2017	**Gross undiscounted cash flows**					
	Less than 3 months	**3 to 12 months**	**1 year to 3 years**	**Over 3 years**	**Total**	**Carrying value**
Placements from financial institutions	79,740	-	-	-	79,740	79,401
Bank financing	42,692	46,123	13,281	35,058	137,154	127,037
Other liabilities	15,043	682	-	4,773	20,498	20,498
Total liabilities	**137,475**	**46,805**	**13,281**	**39,831**	**237,392**	**226,936**

At 31 December 2016	Gross undiscounted cash flows					
	Less than 3 months	3 to 12 months	1 year to 3 years	Over 3 years	Total	Carrying value
Placements from financial institutions	171,746	-	-	-	171,746	171,218
Bank financing	108,469	4,868	54,998	41,078	209,413	197,805
Other liabilities	20,280	3,700	-	3,997	27,977	27,977
Total liabilities	300,495	8,568	54,998	45,075	409,136	397,000

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26 RISK MANAGEMENT (continued)

(a) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities based on expected periods to cash conversion from the consolidated statement of financial position date:

2017	**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**	**No fixed Maturity**	**Total**
Assets									
Cash and bank balances	12,100	-	-	-	-	-	-	-	12,100
Placements with financial institutions	84,953	-	-	-	-	-	-	-	84,953
Financing assets	2,999	-	51,157	35,000	11,313	31,013	-	-	131,482
Ijarah assets	-	-	-	-	-	-	-	78,700	78,700
Investment securities	-	-	-	194,379	102,283	110,907	-	-	407,569
Equity accounted investees	-	-	-	-	-	-	-	44,240	44,240
Other assets	1,496	-	15,965	1,412	7	16,904	-	622	36,406
Property and equipment	-	-	-	-	-	-	-	11,842	11,842
Assets held for sale	-	-	-	-	-	-	-	119,645	119,645
Total assets	**101,548**	**-**	**67,122**	**230,791**	**113,603**	**158,824**	**-**	**255,049**	**926,937**
Liabilities									
Placements from financial institutions	79,401	-	-	-	-	-	-	-	79,401
Bank financing	42,186	1,147	42,419	9,742	10,511	21,032	-	-	127,037
Other liabilities	15,043	188	494	-	4,773	-	-	-	20,498
Total liabilities	**136,630**	**1,335**	**42,913**	**9,742**	**15,284**	**21,032**	**-**	**-**	**226,936**
Net gap	**(35,082)**	**(1,335)**	**24,209**	**221,049**	**98,319**	**137,792**	**-**	**255,049**	**700,001**
Cumulative net gap	**(35,082)**	**(36,417)**	**(12,208)**	**208,841**	**307,160**	**444,952**	**444,952**	**700,001**	**-**
Commitments	**159**	**81**	**84**	**244**	**939**	**-**	**-**	**-**	**1,507**

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26 RISK MANAGEMENT (continued)

(a) Liquidity risk (continued)

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	No fixed Maturity	Total
Assets									
Cash and bank balances	8,944	-	-	-	-	-	-	-	8,944
Placements with financial institutions	138,255	-	-	-	-	-	-	-	138,255
Financing assets	-	-	-	100,078	36,113	48,306	-	-	184,497
Ijarah assets	-	-	-	-	-	-	-	205,037	205,037
Investment securities	-	-	74,418	204,957	116,840	45,480	-	-	441,695
Equity accounted investees	-	-	-	-	-	-	-	54,944	54,944
Other assets	1,122	-	16,779	839	10	10,059	-	560	29,369
Property and equipment	-	-	-	-	-	-	-	9,765	9,765
Assets held for sale	-	-	-	-	-	-	-	-	-
Total assets	148,321	-	91,197	305,874	152,963	103,845	-	270,306	1,072,506
Liabilities									
Placements from financial institutions	171,218	-	-	-	-	-	-	-	171,218
Bank financing	107,561	1,104	2,230	50,406	10,117	26,387	-	-	197,805
Other liabilities	20,280	-	3,700	-	3,997	-	-	-	27,977
Total liabilities	299,059	1,104	5,930	50,406	14,114	26,387	-	-	397,000
Net gap	(150,738)	(1,104)	85,267	255,468	138,849	77,458	-	270,306	675,506
Cumulative net gap	(150,738)	(151,842)	(66,575)	188,893	327,742	405,200	405,200	675,506	-
Commitments	117	117	235	157	1,866	-	-	-	2,492

26 RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk principally from the balances with banks, commodity murabaha and wakala contracts placed with financial institutions, investments in sukuks and other receivables.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country risk and sector risk).

Management of credit risk
Credit risk is assessed and approved on an individual basis for each counterparty at least once a year as a part of the internal risk review process. As at 31 December 2017, all credit exposures were appropriately approved by the relevant authority level. The credit risk assessment conducted as a part of the internal risk review process included rating each exposure using industry specific rating models which consider key risk factors to assign the internal credit rating. The Bank assigns rating-based credit limits for all counterparty banks and financial institutions with whom it places short-term funds. All placements during the year were with financial institutions having internal and / or external credit ratings mapped to the "Standard" credit category of the Bank. The Bank also conducts detailed assessments of the debt investment opportunities to evaluate the commercial viability of the investments. Sukuk investments during the year were with obligors who were either banks, sovereigns or sovereign owned companies, subsidiaries, and were rated externally and/or internally. The Bank monitors the creditworthiness of the counterparties and the performance of the exposures with regard to timeliness of payments and other credit conditions on an ongoing basis. Annual and interim credit reviews are conducted to check the credit quality and impairment assessment requirement, if any.

The Bank attempts to reduce credit risk by assigning limits for each counterparty, monitoring credit exposure, and continuously assessing the creditworthiness of counterparties. The Bank uses external ratings for regulatory purposes.

In addition to external ratings, the Bank assigns an internal rating which is mapped to the lowest external rating, in cases where the entity is rated by more than one credit rating agency. The external ratings used for this purpose are those issued by S&P, Moody's, Fitch and Capital Intelligence. In case the entity is not rated externally the Bank assigns an internal rating based on an in house credit assessment.

The Bank performs collective assessment of impairment for its credit exposures on a yearly basis as per the the Bank's internal guidelines. Credit exposures are also subject to regular reviews by the Risk Management Department.

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26 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk

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

	2017	2016
Balances with banks	12,088	8,932
Placements with financial institutions	84,953	138,255
Financing assets	131,482	184,497
Investment securities	269,252	304,327
Other assets	30,863	23,450
	528,638	659,461

As of 31 December 2017, the financing assets exposure is net of impairment of USD 30,011 thousand (2016: USD 25,999 thousand).

Credit quality per class of financial assets

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

2017	**Bank balances**	**Placements with financial institutions**	**Financing assets**	**Investment securities**	**Other assets**	**Total**
Prime to High grade: AAA - AA	-	20,009	-	9,140	-	29,149
Medium grade: A - BBB	1,674	3,003	-	121,097	-	125,774
Non-investment / speculative: BB - B	170	18,509	-	139,015	-	157,694
Unrated	10,244	43,432	131,482	-	30,863	216,021
	12,088	**84,953**	**131,482**	**269,252**	**30,863**	**528,638**

2016	Bank balances	Placements with financial institutions	Financing assets	Investment securities	Other assets	Total
Prime to High grade: AAA - AA	52	4,775	-	-	-	4,827
Medium grade: A - BBB	7,629	92,271	100,078	190,701	-	390,679
Non-investment / speculative: BB - B	343	3,001	-	78,430	-	81,774
Unrated	908	38,208	84,419	35,196	23,450	182,181
	8,932	138,255	184,497	304,327	23,450	659,461

Concentration Risk

Concentration risk is the risk of insufficient diversification of the portfolio resulting in an adverse impact of an external event on portfolio constituents sensitive to similar risk factors. Concentration risk primarily arises due to name and sector concentration, including geographic concentration.

26 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The Bank strictly adheres to the regulatory guidelines in respect of large exposures and connected and related counterparty exposures to effectively manage name concentration. Any excesses above the said limits are reported to the CBB and treated in accordance to the regulatory guidelines by way of capital deduction. In addition, the Bank has established internal limits on the maximum permissible exposures to sectors for managing sector concentration.

In respect of geographical concentration the Bank has defined limits for each country / geography which is based on the lowest among the available ratings by S&P, Moody's, Fitch and Capital Intelligence. The Bank also closely monitors political risk arising from events in each country of exposure.

The Group's exposure to financial assets with credit risk, before taking into account any collateral held or other credit enhancements, by industry sector and geographic sector, refer to note 23.

(c) Market Risk

Market risk is the risk that changes in market risk factors, such as currency risk, profit rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

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

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's major exposure is in GCC currencies, which are primarily pegged to the US Dollars. The Bank monitors this exposure on an ongoing basis.

The Group had the following net exposures denominated in foreign currencies (other than GCC currencies) as of 31 December:

	2017	2016
Sterling Pounds	**-**	32
Euros	**-**	(36,591)
Indian Rupees	**-**	-
Libyan Dinars	**-**	-
Bulgarian Leva	**-**	6,423

The table below indicates the impact of reasonably possible changes in exchange rates on the Group's net foreign currency exposure. The impact has been calculated using the net foreign currency exposure as at the consolidated statement of financial position date and calculating the impact of the changes in exchange rates:

	Change in exchange rates (+/-) %	**Net income and equity (+/-)** USD 000's
Sterling Pounds	10	**-**
Euros	10	**-**
Indian Rupees	10	**-**
Libyan Dinars	10	**-**
Bulgarian Leva	10	**-**

26 RISK MANAGEMENT (continued)

(c) Market Risk (continued)

Equity price risk
The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

As at 31 December 2017, the Group had investments in quoted equities on the Dubai Financial Market and Bahrain Bourse. The table below reflects the sensitivity of the investment by considering the impact of reasonably expected changes in the capitalisation rate.

	Change in exchange rates (+/-) %	**2017 Effect on net equity (+/-)** USD 000's	2016 Effect on net equity (+/-) USD 000's
Stock Exchange	10	**3,778**	3,683

The Group also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted, or when a third party transaction in the investment gives a reliable indication of fair value which will be reflected in equity.

Profit rate risk in the banking book
Profit rate risk in the banking book is the exposure of the Group's financial condition to adverse movements in profit rates. Changes in profit rates affect the Group's earnings by changing its net profit income and the level of other profit rate sensitive income and expenses. Changes in profit rates also affect the underlying value of the Group's assets and liabilities because of the absolute or economic value changes of future cash flows due to the change in profit rates. Profit rate risk primarily arises on account of reprising risk, yield curve risk, basis risk and optionality risk.

The Group's profit rate sensitive assets are mainly commodity murabaha and wakala placed with financial institutions and investments in Sukuk. The Group has exposures to fixed rate Sukuk. Fixed rate sukuk represent 100% of the total Sukuk portfolio as at 31 December 2017 (2016: 100%). The rate sensitive liabilities comprise of due to financial institutions, murabaha financing, term financing and general financing.

The Group has minimal exposure to reprising and yield curve risks. Reprising risk arises on account of mismatch in profit rate fixation periods between assets and liabilities. Yield curve risk arises due to shift in the yield curve resulting in changes in the economic value of cashflows. Exposure to basis risk is not material and although the basis risk exposure is monitored, the Bank does not consider this item of profit rate risk in the internal risk calculations. The rate sensitive assets mainly comprise commodity murabaha and wakala contracts and Sukuk. Part of these assets are funded by rate sensitive liabilities in the form of murabaha and wakala payable. The short-term nature of these items and high degree of correlation between profits earned and paid on them minimises the basis risk. The remaining rate sensitive assets (Sukuks and residual inter-bank placements) are funded by equity. The Group is not exposed to optionality risk arising due to embedded options in rate sensitive assets or liabilities.

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26 RISK MANAGEMENT (continued)

Profit rate risk in the banking book (continued)

The Bank monitors the timing difference in the re-pricing of the Bank's rate-sensitive assets and liabilities and resulting impact of any parallel shift in the yield curve on the expected net profit income for up to one year, and the value of equity and overall economic value of equity considering the changes in net profit income and the value of equity. The profit rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. A standard 200 basis point (bp) profit rate shock by way of parallel shift in all yield curves is considered on a monthly basis to ensure that the resulting impact on the economic value of equity is within the limit prescribed by the Basel Committee on Banking Supervision.

Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. A summary of the Group's profit rate gap position is as follows:

2017	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Placements with financial institutions	84,953	-	-	-	-	84,953
Financing assets	2,999	-	51,157	35,000	42,326	131,482
Investment securities	-	-	-	56,062	213,190	269,252
Other assets	863	-	-	-	16,904	17,767
Total assets	**88,815**	**-**	**51,157**	**91,062**	**272,420**	**503,454**
Liabilities						
Placements from financial institutions	79,401	-	-	-	-	79,401
Bank financing	42,186	1,147	42,419	9,742	31,543	127,037
Total liabilities	**121,587**	**1,147**	**42,419**	**9,742**	**31,543**	**206,438**
Profit rate sensitivity gap	**(32,772)**	**(1,147)**	**8,738**	**81,320**	**240,877**	**297,016**

2016	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial institutions	138,255	-	-	-	-	138,255
Financing assets	-	-	-	100,078	84,419	184,497
Investment securities	-	-	74,418	67,590	162,319	304,327
Other assets	862	-	-	-	10,059	10,921
Total assets	139,117	-	74,418	167,668	256,797	638,000
Liabilities						
Placements from financial institutions	171,218	-	-	-	-	171,218
Bank financing	107,561	1,104	2,230	50,406	36,504	197,805
Total liabilities	278,779	1,104	2,230	50,406	36,504	369,023
Profit rate sensitivity gap	(139,662)	(1,104)	72,188	117,262	220,293	268,977

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26 RISK MANAGEMENT (continued)

Profit rate risk in the banking book (continued)

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position), would be an increase of profit by USD 5,940 thousand (2016: USD 5,380 thousand).

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

The average effective profit rates on the financial assets and liabilities as at 31 December were as follows:

	2017	2016
Placements with financial institutions	1.11%	0.51%
Financing assets	7.80%	8.00%
Investment securities	5.66%	3.90%
Placements from financial institutions	1.40%	1.11%
Bank financing	3.90%	3.43%

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or loss resulting from external events. Operational risk also includes Shari'a non-compliance risk but excludes strategic and reputational risks.

The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances. In addition the Bank is committed to the training of its staff. The Bank has conducted Risk and Control Self Assessment of Operational Risk in all departments to identify the Key Risk Indicators as a part of the overall Operational Risk Management framework. The Bank monitors the key risks and operational risk losses on an ongoing basis and regularly reports the position to the senior management and the Board. The Bank has also implemented an IT enabled operational risk system to automate the operational risk processes namely risk and controls assessment, loss data collection and key risk indicator calculation

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

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

- *Tier 1 capital*: includes CET1 and AT1.
  CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

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

26 RISK MANAGEMENT (continued)

Capital management (continued)

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

The Capital components are subject to various limits as per the CA modules. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

The regulatory adjustments are subject to limits prescribed by the CA module. These deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds.

As at 31 December the Bank has made regulatory adjustments of USD Nil (2016: USD Nil). In line with the requirements of CA module.

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

The Bank's policy is to maintain a strong capital base and meet the minimum capital requirements imposed by the regulator (CBB), so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the returns and security afforded by a sound capital position.

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to optimize returns within the internally defined risk tolerances while satisfying all the regulatory requirements.

The Bank ensures that the regulatory capital adequacy requirements are met and complied with at all times. In addition, the Bank has developed a comprehensive ICAAP.

The Bank's regulator (CBB) sets and monitors capital requirements for the Bank. CBB requires the Bank to maintain the ratio of eligible capital base to the total risk-weighted assets at a minimum of 12.5%.

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26 RISK MANAGEMENT (continued)

Capital management (continued)

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

	31 December 2017	31 December 2016
Total risk weighted assets	1,263,343	2,676,154
Tier 1 capital:		
- CET1 prior to regulatory adjustments	678,036	646,674
- Less: regulatory adjustments	-	-
CET1 after regulatory adjustments	678,036	646,674
AT1	-	-
Tier 2 capital	2,496	2,496
Total regulatory capital	680,532	649,170
Total regulatory capital expressed as a percentage of total risk weighted assets	54%	24%
Liquidity coverage ratio	419%	296%
Net stable funding ratio	116%	106%
Leverage ratio	79%	65%

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

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

a) Fair value of financial instruments
The fair value of the Group's investments in sukuk held at amortised cost of USD 271,748 thousand as of 31 December 2017 (2016: USD 306,823 thousand) was USD 269,369 thousand (2016: USD 304,335 thousand).

For murabaha financing, the profit rate is in line with the current market rates for similar facilities, hence, after considering the prepayment risk it is expected that the current value would not be materially different to its fair value. Other than equity investments carried at cost less impairment of USD 995 thousand (2016: USD 995 thousand), the Group's other financial instruments are not significantly different from the carrying values.

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

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

27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Fair value through equity				
Quoted equity securities	**37,780**	**-**	**-**	**37,780**

2016	Level 1	Level 2	Level 3	Total
Fair value through equity				
Quoted equity securities	36,831	-	-	36,831

28 SOCIAL RESPONSIBILITY

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

29 COMPARATIVES

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