بنك الاستثمار الدولي
INTERNATIONAL INVESTMENT BANK

CONFIGURED FOR GROWTH

ANNUAL REPORT 2016

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Principal bankers and professional advisors

Principal Bankers
Ahli United Bank, Bahrain
Al Salam Bank, Bahrain
Kuwait Finance House, Bahrain
Union National Bank, Abu Dhabi

External Auditors
KPMG Fakhro, Bahrain

External Legal Counsel
Charles Russell Speechlys LLP, Bahrain
Zu'bi & Partners, Bahrain

بسم الله الرحمن الرحيم

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IIB'S INVESTMENT PHILOSOPHY ENTAILS ESTABLISHING STRATEGIC ALLIANCES WITH REGIONAL AND INTERNATIONAL INSTITUTIONS.

PROFILE

Established in 2003, International Investment Bank B.S.C. (c) (IIB) is a forward thinking Islamic wholesale investment bank based in the Kingdom of Bahrain with an authorised capital of US$ 200 million, and a paid up capital of US$ 110 million. The Bank boasts a strong shareholder base comprised of high net worth individuals, business houses and institutions spanning the GCC states.

Through its wide network of international strategic partners, the Bank offers clients a diverse range of Shari'ah-compliant real estate and private equity products, and intensively manages these investments in order to maximise the yields at the time of exit. Since inception, IIB has been involved in investments worth almost US$ 3.0 billion.

VISION & MISSION

VISION

To be a regional leader in private equity investments and real estate investments, mainly through the provision and management of high-quality, globally-diversified investment offerings in accordance with the principles of Islamic Shari'ah, to maximise shareholder value, to generate superior risk-adjusted returns for clients, to provide excellent career opportunities to all employees and to deal fairly with all stakeholders.

MISSION

To originate, manage and ultimately exit from a well-diversified range of innovative investment products in association with leading international strategic partners, to provide high-quality advisory services to clients, to operate in accordance with the highest standards of corporate governance, risk management, due diligence and ethical standards, and to attract and retain the best-qualified employees available.

FINANCIAL HIGHLIGHTS

AS 31 DECEMBER 2016

Total Assets

US$ 199.4
(millions)

Investments

US$ 185.8
(millions)

Capital

55.9%
Equity / total assets

FIVE-YEAR FINANCIAL SUMMARY

Earnings (US$ millions)	2016	2015	2014	2013	2012
Total income	(4.4)	(9.7)	3.8	10.7	14.2
Total expenses	7.8	8.8	5.9	6.1	6.4
Share of profit of associate	-	-	0.7	0.4	4.0
Operating profit (loss)	(12.2)	(18.5)	(1.4)	4.7	7.8
Impairment charge and FX	(8.7)	(10.9)	(6.7)	0.9	(3.6)
Net income (loss)	(20.9)	(29.4)	(8.1)	6.0	8.2
Financial Position (US$ millions)					
Total assets	199.4	230.2	271.4	174.8	165.3
Cash and placements with financial institutions	11.0	39.4	62.6	37.9	35.5
Investments	185.8	187.1	204.6	124.1	106.9
Financing of specific investments	75.2	64.4	68.0	-	-
General unallocated financing	10.2	30.6	30.0		
Equity (attributable to equity holders of the parent)	103.2	127.0	160.1	164.4	155.0
Ratios					
Profitability					
Return on average equity (%)	(18.8)	(18.3)	(5.1)	3.8	5.5
Return on average assets (%)	(9.8)	(11.7)	(3.6)	3.5	5.2
Earnings per share (cents)	(18)	(25)	(7)	6	8
Cost-to-income ratio (%)	(178)	(90)	132	56.5	45.1
Capital					
Capital adequacy ratio (regulatory minimum 12.5%)	25	22	47	48	48
Equity/total assets (%)	55.9	57.3	62.7	98.2	98.0
Liquidity and Other					
Investments/total assets (%)	93.2	81.3	75.4	71.0	64.7
Liquid assets/total assets (%)	5.5	17.1	23.1	21.7	21.5
Assets under management (US$ millions)	181.2	282.3	311.4	323.7	324.3
Number of employees (at year end)	28	33	30	31	32

BOARD OF DIRECTORS' REPORT
FOR THE YEAR ENDED 2016

SAEED ABDUL JALIL AL FAHEEM
CHAIRMAN

"The Bank's priorities during 2017 will continue to be liquidity and capital adequacy maintenance; management of existing investments with exits for all non-strategic investments."

25%
IIB's Capital Adequacy Ratio remained strong at 25.3 percent as at 31 December 2016

US$ 185.8
The total investment portfolio was valued at US$ 185.8 million as at 31 December 2016.

Dear Shareholders,

On behalf of the Board of Directors, I present the Annual Report and the Consolidated Financial Statements of International Investment Bank ("IIB") for the year ended 31 December 2016.

Financial Performance 2016 Review

Statement of Income

During 2015, the Board decided to make a "voluntary change in accounting policy" in order to reflect the fair values of each investment, where the accounting standards permitted. The effect was to accelerate the recognition of fair value losses and to reflect them, where permitted, in the statement of income instead of directly in equity. The further losses incurred in 2016 justify these changes and management's rationale for recommending them.

In 2016 a "fair value loss on investments classified as fair value through income statement" of US$ 7.4 million has been recorded. When other impairment and provision charges are added on investments and receivables, the total valuation-related expense in the Statement of Income was US$ 16.9 million compared with an equivalent charge of US$ 25.2 million in 2015.

Reflecting the fair value losses, the Bank's total income was negative in both 2016 and 2015, being negative US$ 4.4 million and US$ 9.7 million respectively.

Total operating expenses before financing charges incurred in 2016 were US$ 6.4 million, a decrease of US$ 0.4 million as compared with 2015. Financing costs payable on a US$ 30.0 million Wakala (reduced to US$ 10.0 million at the end of the third quarter) were US$ 1.5 million (2015: US$ 2.1 million).

The operating loss for 2016 was US$ 12.2 million, compared to US$ 18.5 million in 2015. After deducting the impairment and provision charges explained above, IIB incurred a net loss for the year of US$ 20.9 million, compared with US$ 29.4 million in the previous year.

Statement of Financial Position

Total assets decreased from US$ 230.2 million at the 2015 year end to US$ 199.4 million as at 31 December 2016, mainly reflecting the net loss for the year, net fair value losses booked in equity in accordance with the applicable accounting standards, part prepayment of Wakala payable, and recurring depreciation charge on the Ijarah asset, partly offset by the addition of “assets held for sale” following the conversion of an investment security into a subsidiary.

Total equity of US$ 111.5 million reflects a decrease from last year of US$ 20.4 million, arising principally from the net loss for the year and impairment charges booked in equity. IIB’s Capital Adequacy Ratio remained strong at 25.3 percent on 31 December 2016 as compared to the 12.5 percent minimum ratio required by the Central Bank of Bahrain. The liquid assets of US$ 20.9 million represented 10.5 percent of total assets at the end of 2016, underscoring the Bank’s strong liquidity position.

The total investment portfolio was valued at US$ 185.8 million at 31 December 2016. During the year, the Bank also exited or partially exited from two investments that generated cash proceeds.

The Bank’s comprehensive valuation exercise of all investments as at 31 December 2016 was completed with the assistance of expert independent valuation agents and consultants. In line with the AAOIFI standards and reflecting the accounting policy change referred to above, net unrealised losses of US$ 2.1 million have been reflected in equity and net impairment, and provision charges of US$ 16.9 million were charged to the income statement for the year, making a total valuation related deduction from total equity of US$ 19.0 million for the year.

2017 Outlook

The Bank’s priorities during 2017 will continue to be liquidity and capital adequacy maintenance; management of existing investments with exits for all non-strategic investments as soon as possible; highly selective and fully researched new investments; further movement from Murabaha / Wakala short-term financial instruments into higher yielding liquid assets; and a return to profitability through achieving the budgeted net profit.

IIB Recommendations – Appropriations and Zakat

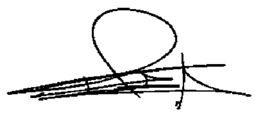
The Board has recommended that no dividend will be paid for the year as the Bank has incurred a net loss. As in the previous years, shareholders will directly pay their respective Zakat on their equity investments in the Bank. Using the Net Asset method of computation, the Zakat payable per share for 2016 is nil (2015: US$ 0.001 per share).

Board Membership

The only change in the membership of the Board of Directors during 2016 was the resignation of Mr. Daniel Taylor as a Director with effect from 13th November 2016.

Acknowledgments

The Board of Directors extend their sincere thanks to our valued shareholders, investors and strategic partners for their loyal support. I also take this opportunity to thank our esteemed and eminent Shari’ah Supervisory Board, and our Executive Management team and staff for their dedicated and committed service throughout the year. We also thank the Central Bank of Bahrain and Bahrain’s Ministry of Industry and Commerce for their invaluable guidance and support.



Saeed Abdul Jalil Al Faheem
Chairman

CORPORATE GOVERNANCE
FOR THE YEAR ENDED 2016

The Board of Directors is responsible for the overall governance of the Bank through continuous review and adherence to international best practice and standards. The Board determines the Bank's strategy, provides direction to the Executive Management, ensures that the control framework is functioning in accordance with best practice and monitors Executive Management's performance.

BOARD OF DIRECTORS
FOR THE YEAR ENDED 2016

The Board meets regularly throughout the year in order to control strategic, financial, operational, internal control and compliance issues.

As at 31 December 2016, the Board of Directors was comprised of 8 Directors.

BOARD OF DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 2016

HE Mr. Saeed A J Al Faheem
Chairman

Mr. Ahmed Salem Bugshan
Vice Chairman and Chairman of Nomination and Remuneration Committee

Mr. Abdul Wahab Mohammed Al Wazzan
Chairman of Audit & Corporate Governance Committee

Mr. Ali Hashim Sadiq Hashim
Chairman of Executive Committee

Dr. Bader Ibrahim Mohammad Bin Saedan
Member of Executive Committee

Mr. Ali Haider Suliman Al Haider
Member of Audit & Corporate Governance Committee and Member of Nomination and Remuneration Committee

Mr. Fareed Bader
Member of Executive Committee

Mr. Wasim Saifi
Member of Audit & Corporate Governance Committee and Member of Nomination and Remuneration Committee

DIRECTORS' BIOGRAPHIES - PROFESSIONAL QUALIFICATIONS

HE Mr. Saeed A J Al Faheem

Chairman

Non-Independent and Non-Executive Director

- Year of first appointment: 2004
- Honorary Chairman – Al Fahim Group, UAE
- Chairman – Mubarak & Brothers Property & Financial Investment, UAE LLC
- Chairman – German Emirati Joint Council for Industry and Commerce (AHK), UAE
- President of Sh. Khalifa Excellence Award (SKEA) Abu Dhabi, UAE
- Former Vice President – Abu Dhabi Chamber, Abu Dhabi, UAE
- Former Board Member – National Bank of Abu Dhabi, UAE
- Former Board Member – United Arab Bank, UAE

Educational qualifications:

- Bachelor's in Business Administration, Bowling Green University, USA
- Honorary Doctorate in Business Administration, Shendi University, Sudan

Mr. Ahmed Salem Bugshan

Vice Chairman and Chairman of Nomination and Remuneration Committee

Independent Non-Executive Director

- Year of first appointment: 2004
- Chief Executive Officer – Saudi Industrial Beverages Co. (SIBCO), KSA
- Chairman – Saudi Steel Profile Mfg. Co. Ltd., KSA
- Chairman – Sidra Capital, KSA
- Chairman – Entertainment Innovation Co. Ltd., KSA
- Chairman – Ahmed Salem Bugshan Trading Company, KSA
- Chairman – Saudi Steel Profile Company, KSA
- Chairman – Ahmed Salem Bugshan Steel Trading, KSA
- Director – Savoy Hotel, Sharm El Sheikh, Egypt
- Director – Tirana Tourism Investment Company, Egypt
- Chairman – BMC Al-Mahdar Company, Yemen
- Chairman – Ahmed Salem Bugshan Investment Company, DIFCI, UAE
- Chairman – KAS Holdings Limited, DIFCI, Dubai, UAE
- Board Member – Tirana Tourism Investment Company, Cairo, Egypt
- Chairman – Westville Group (UK)
- Chairman – A.W. Properties (France)

Educational qualifications:

- Bachelor's in Business Administration with major in Economics and Administration, King Abdul Aziz University, Kingdom of Saudi Arabia

Mr. Abdul Wahab Mohammed Al Wazzan

Chairman of Audit & Corporate Governance Committee

Independent Non-Executive Director

- Year of first appointment: 2004
- Chairman and Board Member – National International Holding Company, Kuwait
- Second Vice Chairman – Kuwait Chamber of Commerce & Industry, Kuwait
- Former Chairman – Kuwait Real Estate Bank (Kuwait International Bank), Kuwait

Educational qualifications:

- Bachelor's degree in Business Administration, Western Michigan University, USA

Mr. Ali Hashim Sadiq Hashim

Chairman of Executive Committee

Independent Non-Executive Director

- Year of first appointment: 2004
- Vice Chairman & CEO – Hashim Industry, Jeddah, KSA
- Chairman – Gulf Manufacturers, Egypt
- Chairman – Rawasi Al Khaleej, Sharjah, UAE
- Chairman – Tahweel Industries Company, UAE
- Vice Chairman & CEO – Gulf Packaging Systems Company Ltd., KSA
- Vice Chairman & CEO – Prime Plastic Products, KSA
- Vice Chairman & CEO – 3P Stretch Company, KSA
- Vice Chairman & CEO – 3P Pipe Company, KSA
- Partner & Director – Arabian Gulf Manufacturers, KSA
- Partner & Director – Safra Company Ltd., KSA
- Director – Jeddah Graphic, KSA

Educational qualifications:

- Bachelor of Engineering, King Saud University, Kingdom of Saudi Arabia
- Master of Science, Civil Engineering, University of Southern California, USA
- Doctorate of Philosophy, University of Dundee, Scotland

Dr. Bader Ibrahim Mohammad Bin Saedan

Member of Executive Committee

Independent Non-Executive Director

- Year of first appointment: 2007
- Managing Director – Al Saedan Real Estate Company, KSA
- Director – Saudi Maintenance Made Simple, KSA
- Chairman – Curzon Asset Management, UK
- Director – Tunisian Saudi Real Estate Company, Tunisia
- Director – Mawten Real Estates, KSA
- Director – Gulf Real Estates, KSA
- Director – Kinetic Renewable Energy, USA
- Director – Real Estate Committee in the Chamber of Commerce and Industry, Riyadh, KSA
- Board Member – Saudi Council of Engineers, KSA
- Board Member – General Assembly of the Charitable Society for Orphans, KSA

Mr. Ali Haider Suliman Al Haider

Member of Audit & Corporate Governance Committee and Member of Nomination & Remuneration Committee

Independent Non-Executive Director

- Year of first appointment: 2007
- Vice Chairman – Suliman & Brothers Company W.L.L., Qatar
- Vice Chairman – Salam Bounian, Qatar;
- Board Member – Salam International, Qatar
- Board Member – Al Safa Trading Company, Qatar

Educational qualifications:

- Bachelor of Science, Qatar University

Mr. Fareed Bader

Member Audit & Corporate Governance Committee and Member Executive Committee

Independent Non-Executive Director

- Year of first appointment: 2011
- Chairman & Managing Director – Bader Group of Companies, Kingdom of Bahrain
- Chairman – Wafa IEI Middle East Property Investment, Kingdom of Bahrain
- Chairman – Gulf Membrane and Coating Industries, Kingdom of Bahrain
- Chairman – Star Gate Telecommunications, Kingdom of Bahrain
- Chairman – Group 7 Security, Kingdom of Bahrain
- Chairman – Green Product Industry
- Vice Chairman – Universe Environment Bahrain B.S.C., Kingdom of Bahrain
- Member of the Board of Directors – International Investment Bank
- Board Member (President) – Rotary Club Manama, Kingdom of Bahrain
- Board Member – Bahrain Italian Association, Kingdom of Bahrain
- Member / Adviser / Commercial Sector – Bahrain Chamber of Commerce and Industry, Kingdom of Bahrain
- Member of the Board of Directors – Bahrain Contractor Association
- Founding Member – French Chamber of Commerce
- Member of the Board of Directors – Toastmasters FCT
- Member – Bahrain Engineering Society, Kingdom of Bahrain
- Member (Strategic Alliance) – Entrepreneurs Organisation Bahrain Chapter
- Member – American Chamber of Commerce in Bahrain

Educational qualifications:

- BSC, Civil Engineer B, University of Wales, Swansea

Mr. Wasim Saifi (resigned on 8 March 2017)

Member of Audit & Corporate Governance Committee and Member of Nomination & Remuneration Committee

Independent Non-Executive Director

- Year of appointment: 2015
- Deputy CEO, Emirates Islamic Bank PJSC
- Board Member – AMMB Holdings Berhad, Malaysia
- Board Member – Ambank Islamic Berhad, Malaysia

BOARD OF DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 2016

Board Terms and Start Date of Current Term

All current members of the Board of Directors were appointed on 27 March 2014, except for Mr. Wasim Saifi who was appointed on 22nd of November 2015. They hold their office for a term of three years.

Induction, Orientation and Training of New Directors

The Chairman of the Board ensures that each newly appointed director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction process includes:

a. Meetings with senior management;
b. Visits to the Bank facilities;
c. Presentations regarding strategic plans;
d. Significant financial, accounting and risk management issues;
e. Compliance programmes;
f. Meetings with internal and external auditors and legal counsel (as required); and
g. Familiarisation with Corporate Governance Guidelines

Written Code of Ethics and Business Conduct

The Bank has documented a Code of Conduct, including a code applicable to the Directors.

The aforementioned documents are available with the management and can be provided to the shareholders on request.

Bank's Code of Ethical Business Conduct

The Board establishes corporate values for itself, senior management, and employees. These values have been communicated throughout the Bank, so that the Board and senior management and staff understand their accountabilities to the various stakeholders and fulfill their fiduciary responsibilities to them.

Bank's ethics dictate that a Board Member should:

1. Not enter competition with the Bank;
2. Not demand or accept substantial gifts for himself or his associates;
3. Not take advantage of business opportunities to which the Bank is entitled for himself or his associates;
4. Report to the Board any conflict of interest in their activities with, and commitments to other organisations. In any case, all Board Members declare in writing all of their other interest in other enterprises or activities (whether as a shareholder, manager, or other form of participation) to the Board (or the Audit and Corporate Governance Commitee) on an annual basis;
5. Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advice, or which involves a subject or proposed transaction where a conflict of interest exists; and
6. Ensure, collectively with the Board, that systems are in place to ensure that necessary client confidentiality is maintained and the privacy or the organisation itself is not violated, and that clients' rights and assets are properly safeguarded.

During 2016, there have not been not been any cases of conflict of interest in the Bank.

Election System of Directors

The new members are inducted to the Board of Directors through a nomination process on a three-year renewable term. The new members are nominated by the Board, and then later ratified/approved by the General Assembly Meeting of the Bank. The Central Bank of Bahrain then approves the nominations for their term.

Monitoring Compliance to and Enforcement of Code of Conduct

The matters covered in the Code of Conduct are of the utmost importance to the Bank, its stakeholders and its business partners and are essential to the Bank's ability to conduct its business in accordance with its stated values. The Bank clearly communicates to all of its employees that they are expected to adhere to these rules in carrying out their duties for the Bank.

The Board, through independent evaluators (i.e. Internal Auditor) and Senior Management, continuously monitor adherence to the set Code of Conduct and take appropriate action against any employee whose actions are found to violate these policies or any other policies of the Bank. Disciplinary actions may include immediate termination of employment or business relationship at the Bank's sole discretion. Employees are prohibited from participating in or concealing criminal activity or illegal behavior. Any incidence of non compliance will be presented to the Board as soon as possible.

Material Transactions that Require Board Approval

Every investment and every funds transfer of US$ 50 million or above requires the approval of the Board of Directors.

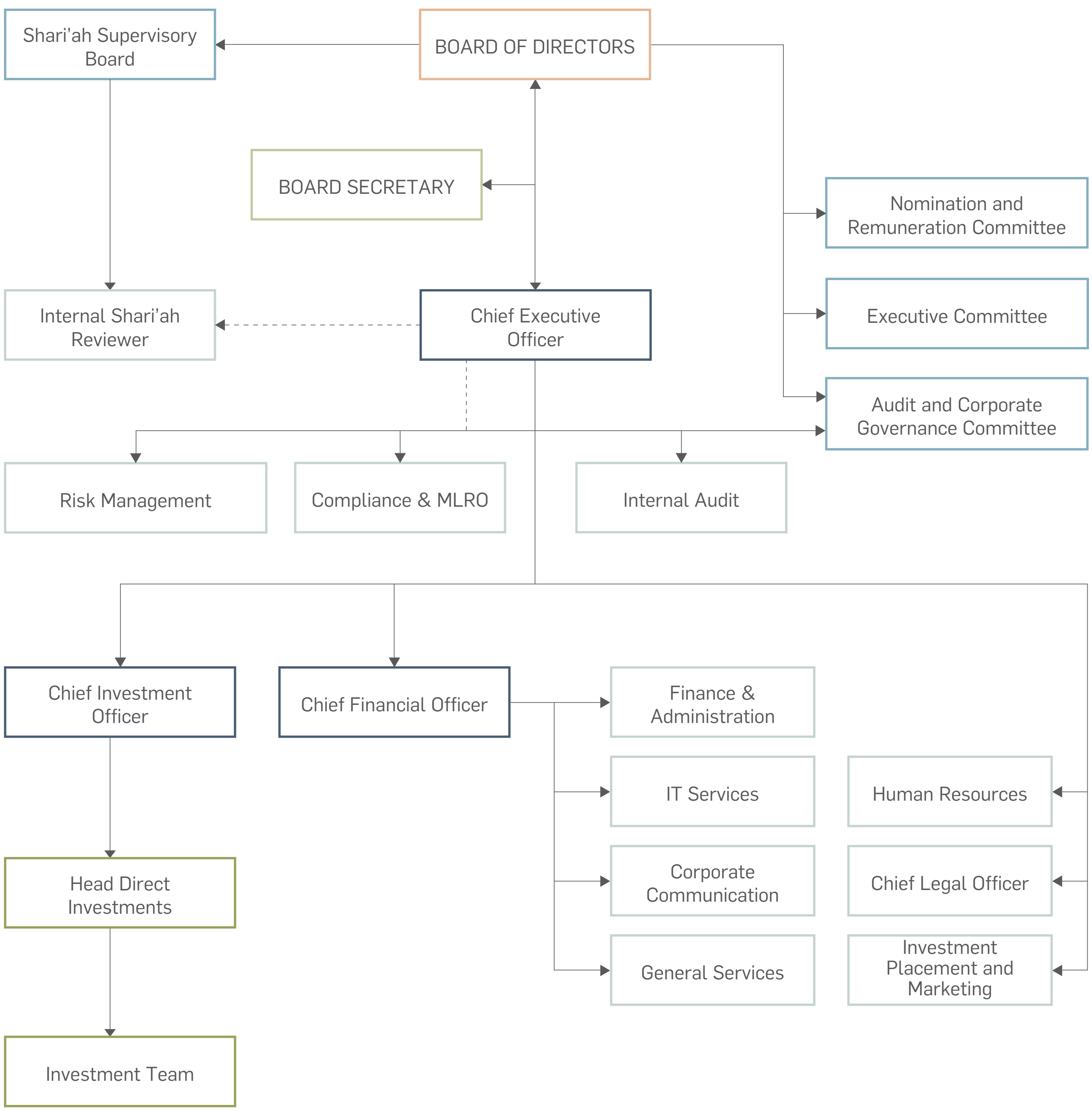
Assessment of Directors

The Board of Directors, its committees and individual directors annually assess their effectiveness and contributions.

Conflict of Interest

Annual Disclaimers of potential conflict of interest have been circulated to the Board of Directors and senior management. Should any conflict of interest arise, the concerned member of the Board of Directors or senior management will declare his interest in the matter under discussion and will absent himself from any vote on the matter.

ORGANISATIONAL STRUCTURE
FOR THE YEAR ENDED 2016



CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2016

Board of Directors' Meetings

The Board of Directors are required to meet at least four times a year, either in person, or via teleconference or video conference. The Board met seven times during the year and the following table shows the dates and attendance details:

Date & Location of Meeting	Names of attendees	Names of Directors not attended
23-02-2016 Manama, Kingdom of Bahrain	Saeed Al Faheem* Abdulwahab Al Wazzan * Ali Hashim * Bader Saedan * Ali Al Haider * Fareed Bader Wasim Saifi Daniel Taylor	Aabed Al Zeera Ahmed Bugshan
27-04-2016 Manama, Kingdom of Bahrain	Saeed Al Faheem Abdulwahab Al Wazzan* Bader Saedan Ali Al Haider Fareed Bader Wasim Saifi Daniel Taylor	Ahmed Bugshan Aabed Al Zeera Ali Hashim
16-05-2016 Held by Teleconference	Saeed Al Faheem* Ahmed Bugshan* Abdulwahab Al Wazzan* Bader Saedan* Ali Al Haider* Fareed Bader* Wasim Saifi* Daniel Taylor*	Ali Hashim Aabed Al Zeera
02-08-2016 Manama, Kingdom of Bahrain	Ali Hashim* Ali Al Haider Fareed Bader* Wasim Saifi Daniel Taylor*	Abdulwahab Al Wazzan Ahmed Bugshan Bader Saedan Saeed Al Faheem
01-11-2016 Manama, Kingdom of Bahrain	Saeed Al Faheem Ali Hashim* Bader Saedan Ali Al Haider Fareed Bader Wasim Saifi*	Ahmed Bugshan Abdulwahab Al Wazzan
13-11-2016 Manama, Kingdom of Bahrain	Saeed Al Faheem Ahmed Bugshan* Abdulwahab Al Wazzan* Bader Saedan Ali Al Haider Fareed Bader Ali Hashim* Wasim Saifi	

Date & Location of Meeting	Names of attendees	Names of Directors not attended
14-12-2016 Manama, Kingdom of Bahrain	Saeed Al Faheem Ahmed Bugshan Abdulwahab Al Wazzan* Ali Hashim* Ali Al Haider Fareed Bader Wasim Saifi	Bader Saedan

* Attended through Phone/Video link

Compliance with HC Module

The Bank regularly monitors the compliance with the provisions of the High-Level Controls (HC) Module of the Rulebook issued by the Central Bank of Bahrain relating to the roles and responsibilities of the Board of Directors, Board Committees, Disclosure Requirements and Management Strategy. The Comply or Explain Principle Report was revised to include include the CBB's amendments during 2016 and accordingly, the Bank has complied with the HC module requirements except for the following:

Reference	HC Module Provision	Requirement	Complied With ? (Yes/No)	Explanation
HC-1.3.4	R	Individual Board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. Voting and attendance proxies for Board meetings are prohibited at all times.	No	Two members failed to meet the 75% minimum attendance requirement, and the CBB was informed of the same.
HC-1.4.6	G	The Chairman of the Board should be an independent director, so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.	No	The Chairman represents the Al Fahim Group (IIB's Controller) who owns more than 5% shares, which makes him non-independent.
HC-1.9.1	R	At least annually the Board must conduct an evaluation of its performance and the performance of each committee and each individual director	No	Remains ongoing

Directors' responsibility for Audited, Consolidated, Financial Statements (AFS)

The Board is responsible for the Audited Consolidated Financial Statements (AFS), which accurately disclose the Bank's financial position. The Board has delegated the responsibility of the preparation of accurate financial statements to the Audit and Corporate Governance Committee. In addition, the Bank has instituted appropriate systems and controls, including internal audit, to ensure regular financial reporting, disclosures and monitoring.

Board Committees

The Board has established three sub-committees and a Shari'ah Supervisory Board, comprising expert independent Shari'ah scholars to assist the Board in expeditiously and effectively discharging its responsibilities. This committee structure ensures appropriate oversight by the Board of Directors, while permitting efficient day-to-day management of the Bank. The minimum number of meetings for Board sub-committees is four per annum, except for the Nomination and Remuneration Committee, which has a minimum of two meetings per annum.

CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2016

The members as at 31 December 2016 and summary terms of reference are as follows:

Executive Committee

Mr. Ali Hashim Sadiq Hashim, Chairman

Dr. Bader Ebrahim Al Saedan, Member

Mr. Fareed Bader, Member

Assists the Board with the review of the Bank's strategy, annual budget and forecasts, risk policies, management committees' activities and actions. The Executive Committee is required to meet at least four times a year. The Members met seven times in 2016 and the following table shows the dates and attendance details:

Date & Location Of Meeting	Names of attendees	Names of Directors not attended
08-02-2016 Jeddah, Kingdom of Saudi Arabia	Ali Hashim Daniel Taylor	Bader Saedan Fareed Bader
26-04-2016 Manama, Kingdom of Bahrain	Daniel Taylor Fareed Bader Ali Hashim* Bader Saedan*	
24-05-2016 Jeddah, Kingdom of Saudi Arabia	Ali Hashim Daniel Taylor Fareed Bader*	Bader Saedan
31-07-2016 Held by Teleconference	Ali Hashim* Daniel Taylor* Fareed Bader*	Bader Saedan
04-08-2016 Held by Teleconference	Ali Hashim* Daniel Taylor* Fareed Bader*	Bader Saedan
26-09-2016 Held by Teleconference	Fareed Bader* Ali Hashim* Bader Saedan*	Daniel Taylor
31-10-2016 Manama, Kingdom of Bahrain	Bader Saedan Fareed Bader Ali Hashim*	

* Attended through Phone/Video link

Audit & Corporate Governance Committee

Mr. Abdul Wahab Mohammed Al-Wazzan, Chairman

Mr. Ali Haider Suliman Al Haider, Member

Mr. Wasim Saifi, Member

Assists the Board in reviewing the integrity of the financial statements, compliance with legal and regulatory requirements, the Bank's internal audit function and the independent auditor's qualifications, independence and performance.

The Audit & Corporate Governance Committee is required to meet at least four times a year. The Members met six times in 2016.

The following table shows dates and attendance details of the Audit & Corporate Governance Committee meetings during the year.

Date & Location Of Meeting	Names of attendees	Names of Directors not attended
22-02-2016 Manama, Kingdom of Bahrain	Abdulwahab Al Wazzan* Fareed Bader* Ali Al Haider*	
26-04-2016 Manama, Kingdom of Bahrain	Abdulwahab Al Wazzan* Ali Al Haider Wasim Saifi* Sh. Abdul Nasser Omer Al Mahmood	
22-06-2016 Manama, Kingdom of Bahrain	Abdulwahab Al Wazzan* Ali Al Haider* Wasim Saifi* Sh. Abdul Nasser Omer Al Mahmood	
01-08-2016 Manama, Kingdom of Bahrain	Abdulwahab Al Wazzan* Ali Al Haider Wasim Saifi* Sh. Abdul Nasser Omer Al Mahmood	
31-10-2016 Manama, Kingdom of Bahrain	Abdulwahab Al Wazzan* Ali Al Haider Wasim Saifi* Sh. Abdul Nasser Omer Al Mahmood	
13-12-2016 Manama, Kingdom of Bahrain	Abdulwahab Al Wazzan* Ali Al Haider Wasim Saifi Sh. Abdul Nasser Omer Al Mahmood	

* Attended through Phone/Video link

CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2016

Nomination & Remuneration Committee

Mr. Ahmed Salem Bugshan, Chairman

Mr. Ali Haider Sulaiman Al Haider, Member

Mr. Wasim Saifi, Member

Assists the Board in assessing candidates and recommending Board and management appointments, as well as to establish and update the remuneration policies and procedures including the level of remuneration paid to executive management.

The Nomination & Remuneration Committee is required to meet at least twice a year. The Members met twice in 2016 and the following table shows the dates and attendance details:

Date & Location Of Meeting	Names of attendees	Names of Directors not attended
02-08-2016 Manama, Kingdom of Bahrain	Ali Al Haider Wasim Saifi	Ahmed Bugshan
14-12-2016 Manama, Kingdom of Bahrain	Ahmed Bugshan Ali Al Haider Wasim Saifi	

Independent Shari'ah Supervisory Board

Being an Islamic Bank, IIB's Shari'ah Supervisory Board regularly reviews all investment products and business activities to ensure compliance with Islamic Shari'ah principles, approves the Bank's financial statements and participates with management in the development of suitable investment products and services. IIB's Shari'ah Supervisory Board comprises three prominent Bahraini Islamic scholars who provide the Bank with pragmatic Islamic opinions.

Brief biographies are as follows:

Shaikh Dr. Nizam Yaquby:

Sh. Dr. Nizam Yaquby holds a Doctorate in Islamic studies and B.A. in Economics from McGill University in Canada. He is also a member of many other local and international Islamic Supervisory Boards, including those of the Central Bank of Bahrain, AAIOFI, Bahrain Islamic Bank, Gulf Finance House, ABC Islamic Bank, HSBC Amanah, Abu Dhabi Islamic Bank, the Islamic Rating Agency, IIFM, Dow Jones Islamic Index and many more. Sh. Dr. Nizam has participated in many conferences worldwide and is a very well-known Islamic scholar with many publications in both Arabic and English to his name.

Shaikh Dr. Osama Mohammed Saad Bahar:

Sh. Dr. Osama Bahar holds a Doctorate from Lahaye University in the Netherlands, a Master's Degree from Al Emam Al Awzae University in Lebanon and a Bachelor's degree in Islamic Shari'ah from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria. Currently, he is Head of Shari'ah Compliance at First Energy Bank. Also, he is a member of the Shari'ah Board of Global Banking Corporation, Reef (Real Estate Finance), Ithmaar Bank, International Tharawat, Family Bank and Alizz Islamic Bank (Oman).

Shaikh Abdul Nasser Omar Al Mahmood:

In addition to his role with IIB, Sh. Abdul Nasser is a member of the Islamic Supervisory Board of Ebdaa Bank, Eskan Bank, Capinnova Investment Bank and Bahrain Development Bank. Also, he works as an Executive Senior Manager at the Shari'ah audit department at Khaleeji Commercial Bank. He holds a Master's in Business Administration from Gulf University and is working on a thesis on Shari'ah Control and Review in Islamic banks. He also holds a Bachelor's degree in Shari'ah and Islamic Studies from Qatar University and an Advanced Diploma in Islamic Commercial from Bahrain Institute of Banking Finance.

Investments

The Investment Department is responsible for investment and business development activities including origination, evaluation, structuring and execution of investments and obtaining the required internal and regulatory approvals for real estate, private equity, quoted equity and fixed income investments. The department also manages portfolio companies and exits investments. It develops investments and asset allocation strategies and policies and undertakes due diligence and documentation in conjunction with consultants, partners, accounting firms and law firms.

The Investment Department works closely with the Legal, Risk, Shari'ah and Compliance departments to ensure controls and policies are complied with in the execution and management of investments.

In addition, the department is responsible for investor reporting.

Investment Placement

The department is responsible for advising investors and placing IIB's investment offerings with sophisticated investors. Whilst mandated with the responsibility of maximising investment placement, the department ensures that every investment placed with investors is consistent with the investment objectives and risk tolerance of those investors. Moreover, in order to achieve best practice governance within the framework of the ethical and regulatory requirements of the Central Bank of Bahrain, investments are placed with only those investors who have provided the detailed "Know Your Customer" (KYC) documents and have complied with all legal formalities associated with the placement of each investment.

Support, Administration & Internal Controls

The business departments and executive management of the Bank are supported by a network of well- structured and staffed departments, as follows:

- Financial Control Department, including Treasury, Operations and General Services
- Legal Department
- Compliance and AML Department
- Risk Management Department
- Information Technology Department
- Internal Audit Department
- Human Resources & Administration Department
- Corporate Communications Department

The Bank's operations and transactions are subjected to commensurate controls, checks and balances and segregation of duties to ensure that each transaction is originated, approved, executed and accounted for in conformity with, not only Shari'ah standards, but also best practice.

For example, to ensure strong segregation of duties, the Bank's operations are structured to ensure that no employee can originate, execute and account for a transaction. At least two individuals are involved in each transaction, including two signatories on every funds transfer. Each transfer is approved and executed in accordance with "Levels of Authority" approved by the Board of Directors.

Department Heads report to the Chief Executive Officer. There are three exceptions to ensure objectivity and independence from Executive Management: the Head of Risk Management Department, the Head of Internal Audit Department and the Head of Compliance Department report to the Chairman of the Audit & Corporate Governance Committee with an administrative reporting to the Chief Executive Officer. The duties of all staff are clearly defined in detailed job descriptions which are reviewed from time to time to ensure conformity with the current requirements of the business.

Being an Islamic bank, IIB must ensure that all its activities are in compliance with Shari'ah principles. Compliance is achieved through the adoption of policies and procedures that are Shari'ah compliant and through regular discussions with members of the Shari'ah Supervisory Board who review the documentation relating to the Bank's transactions. Consultants perform regular reviews of the Bank's activities and have confirmed that the Bank is Shari'ah compliant.

Compensation & Incentive Structures

The Directors may recommend for themselves an annual retainer fee that is approved at the subsequent Annual General Meeting. Plus reimbursement of their travel and accommodation expenses in connection with attending Board meetings. The members of the Shari'ah Supervisory Board receive a flat fee that the Board of Directors approves annually, and a fee for each meeting attended and reimbursement of their actual travel and accommodation expense. The Remuneration Committee and the Chief Executive Officer agree the annual salaries of all other employees. All staff are eligible to participate in the discretionary annual bonus pool which is awarded on the basis of achievement of both corporate and individual goals.

Other benefits are payable to employees in line with normal industry practice and are approved in aggregate by the Board of Directors. An allocation for a staff stock option scheme was approved by the General Assembly. The scheme is yet to be implemented.

CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2016

Executive Management

Management Committees

The Board has established five governance committees, namely the Management Committee, Investment Committee, Risk Management Committee, Assets & Liabilities Committee and IT Steering Committee. These committees comprise senior management and heads of departments who are best qualified to make decisions on issues such as funding, asset utilisation, IT, investment purchase/sale and management of all types of risks, including market, credit, liquidity and operational risks. The members as at 31 December 2016 and the summary terms of reference are as follows:

Management Committees

Executive Management Committee

Mr. Subhi Benkhadra, Chairman

Mr. Marcus Scott

Mr. Michael Ross-McCall

Mr. Hemant Bhadra

Ms. Mai Abul

Monitors the execution of the strategic business plan, provides a forum to assimilate viewpoints, adopt best practices in the management of the Bank and provides guidelines to carry out the day-to-day affairs of the Bank, within the overall approved procedures laid down by the Board.

Management Investment Committee

Mr. Subhi Benkhadra, Chairman

Mr. Marcus Scott

Mr. Hemant Bhadra

Mr. Murtaza Ghulam

Ms. Reem Al Sairafi

Manages the investment portfolio, makes recommendations on proposed investments, exits and approves the final share allocation to investors.

Assets & Liabilities Committee

Mr. Marcus Scott, Chairman

Mr. Michael Ross-McCall

Mr. Hemant Bhadra

Ms. Haleema Ebrahim

Manages liquidity, the profit rate risk inherent in the Bank's asset and liability portfolio, and capital adequacy, and ensures the mix of assets and liabilities is appropriate.

Risk Management Committee

Mr. Michael Ross-McCall, Chairman

Mr. Marcus Scott

Mr. Murtaza Ghulam

Performs a risk review of new business deals to be underwritten by IIB, performs a review of existing business deals underwritten by IIB, and monitors all types of risks faced by IIB including market, credit and operational risks.

IT Steering Committee

Mr. Michael Ross-McCall, Chairman

Mr. Said Itani

Mr. Hemant Bhadra

Mr. Murtaza Ghulam

Mr. Omar Shaheen

Ensures a first class IT and communication service to users, supervises projects to select and implement new systems, provides IT strategic direction, and ensures that a bank-wide disaster recovery plan is prepared and implemented.

Chairman and Executive Management

H.E. Saeed Abdul Jalil Al Faheem, Chairman

H.E. Saeed Al Faheem is the Chairman of Al Fahim Group, one of the most successful groups of companies in the UAE, operating chiefly in the automotive dealership, hospitality and hotel, oil and gas, real estate and insurance sectors. He obtained a degree in Business Administration from Bowling Green University, USA and Shendi University in Sudan has awarded him an Honorary Doctorate in Business Administration in appreciation of his distinguished contribution to Sudan's rural development. He holds a number of company directorships.

Mr. Subhi Benkhadra, Chief Executive Officer

Mr. Benkhadra is an experienced CEO with particular competence in conventional and Shari'ah compliant investment banking, real estate development and turnaround situations across various sectors. He has previously led financial institutions in the UK and Middle East and has an exceptional understanding of Arab and Islamic markets. Starting his career at the United Bank of Kuwait PLC in 1987, he more recently held the position of Chief Executive Officer at Investment Trust Limited (UK), Esterad Investment Company BSC (Bahrain), European Islamic Investment Bank (UK) and Baniyas Investment and Development Co LLC (UAE). He has also served on the Boards of Abu Dhabi Islamic Bank Egypt, Accelerator Technology Co (Jordan) and Brighton College Schools (UAE). Mr. Benkhadra graduated from the University of Bath in 1987 with a BSc in Environmental Engineering and holds an MBA in Finance from City University Business School. He is also an ex-member of the Board of Directors of the Arab Bankers' Association in London.

Michael Ross-McCall, Chief Financial Officer

Mr. Ross-McCall heads the Finance and Administration Department with additional responsibility for Treasury, Operations, Human Resources, General Services and Corporate Communications. He holds a Law Degree from Edinburgh University and is a member of the Institute of Chartered Accountants of Scotland. Following several years of employment with Ernst & Young and Price Waterhouse, he worked in the banking sector for more than 20 years, holding senior positions at Wells Fargo, Bank of Bahrain and Kuwait (BBK) and Bahraini Saudi Bank.

Marcus Scott, Chief Investment Officer

Mr. Scott is the Chief Investment Officer and heads the Investment Department. He has 25 years' experience in banking and investment management. Mr. Scott began his career in London working with global investment banks including Salomon Brothers, Donaldson Lufkin & Jenrette, and Credit Suisse First Boston. He relocated to Bahrain in 2009 while holding the position of Head of Private Equity at European Islamic Investment Bank. From 2011 to 2014 he held the position of Chief Investment Officer at Baniyas Investment Company, based in the UAE, before returning to Bahrain in 2015 to take up the role at IIB. Mr. Scott is a board member of Legacy Hill Resources, a London based mining investment and operating company.

He holds an MPhil in Management Studies from the University of Oxford and a Bachelor of Commerce from the University of Auckland.

Other Senior Officers

Hemant Bhadra, Head of Direct Investment

Mr. Bhadra is the Head of Direct Investment, responsible for managing the bank's own investment portfolio. He has over 20 years of in-depth experience across the complete investment life cycle, from sourcing, evaluating, negotiating, structuring (including mezzanine structures) and executing deals, to post investment monitoring and exits. Mr. Bhadra has managed investments in the MENA region and other emerging markets across a wide range of sectors, including retail, media, infrastructure, real estate, contracting, and manufacturing.

He is a CFA holder from the CFA Institute, USA, and a member of the Institute of Chartered Accountants of India (ICAI).

Mr. Muzaffar Hussain Naveed Allana - Head of Internal Audit (resigned in January 2017)

Mr. Allana heads the Internal Audit function at IIB and is responsible for providing independent assurance to the Board on the effectiveness of the internal controls framework implemented within the Bank. He has more than 12 years of auditing experience of the Banking industry.

Prior to joining IIB, Mr. Allana worked with EY & KPMG, 'Big Four' global auditing firms, in Assurance and Advisory departments and also worked with the Central Bank of Bahrain (CBB) in the Islamic Supervision Directorate. He is a member of the Institute of Chartered Accountants in England and Wales - ICAEW, UK, and a fellow member of the Association of Chartered Certified Accountants - ACCA, UK. He also holds a Bachelor's degree from Oxford Brookes University, UK

Mr. Augustine Peter, Director, Finance

Mr. Peter holds the position of Director, Finance, with responsibility for the financial management of the group, and for maintaining the financial records and preparation of financial statements of the Bank, as well as its subsidiaries and special purpose vehicles. He holds a Bachelor's degree from the University of Calicut, India, and is a member of the Institute of Chartered Accountants of India. Prior to joining the Bank in 2007, he had extensive experience in the area of Financial Audit, Financial Management, and MIS Management, both in India as well as in Bahrain. He has more than 20 years of experience that covers banks, investment companies, audit firms, and stock exchanges.

Said Itani, Head of IT

Mr. Itani has a diploma in systems programming, analysis, and design. He has more than 35 years' experience in the IT sector, latterly in Saudi Arabia and Bahrain. From 1995 to 2002 he was IT Division Manager at Bank Al-Jazira in Jeddah and from 2002 to 2006 he was Head of IT, Security and Property at UBS-Noriba Bank in Bahrain.

Sawsan Al-Ansari, Head of Human Resources and Administration

Sawsan Al-Ansari brings to IIB more than three decades of experience in the areas of information technology, financial control, and human resources. Having previously worked at United Gulf Bank and American Express Bank, she joined IIB in 2009.

Mai Abul, Chief Legal Officer and Board Secretary

Ms. Abul holds both Bachelor and Masters degrees in Business Law from Monash University, Melbourne, Australia. She is a transactional lawyer specialising in Islamic banking and finance projects and investments. Ms. Abul previously served as board secretary of Bahrain Mumtalakat Holding Company B.S.C. (c).

CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2016

Other Senior Officers (Continued)

Arwa Al Sharaf, Head of Compliance and MLRO

Ms. Al Sharaf holds a Bachelor's of Science degree in Banking and Finance from University of Bahrain and an International Diploma in Compliance from the International Compliance Association, Manchester, UK. Ms. Al Sharaf joined the Bank in April 2016 as the Head of Compliance. She is responsible for developing, implementing and administering the Bank's Compliance Management Program. She is also IIB's Money Laundering Reporting Officer. Ms. Al Sharaf has over 11 years of experience in Banking. Prior to working with IIB, Ms. Al Sharaf was the Head of Compliance, Deputy MLRO and Board Secretary at Seera Investment Bank, and before that she worked in the Financial Controls department where she was responsible for MIS and CBB reporting. Ms. Al Sharaf commenced her career at Citibank Bank Bahrain in the Treasury Operations department where she gained broad experience in the banking operations and in a wide range of Islamic and conventional banking products.

Charitable Contributions

The Bank made contributions and donations to Bahraini charities in 2016 aggregating to US$ nil (2015: US$ 4,000).

Non-Shari'ah Income

Any income derived from any investment or business that does not conform to Shari'ah principles is considered to be Non-Shari'ah income arising in the course of the business. It is donated through charitable organisations.

For the year 2016, there was no Non-Shari'ah income for the Bank.

Review of Internal Control Process and Procedures

The Board is fully aware that the system of internal control cannot eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an on-going process of managing significant risks faced by the Bank and reviewing the system of internal control for the year under review. The key elements are described below:

- Formal organisation structure that clearly defines the framework for the line of reporting and hierarchy of authority
- Policies and Procedures Manual on key activities that lay down the objective, scope, policies and operating procedures for the Bank, which are subject to regular review and improvement
- Regular internal audit visits to departments within the Bank to ensure compliance with the Bank's Policies and Procedures, and to review effectiveness of internal control systems
- Clearly defined authorisation limits at appropriate levels are set out for controlling and approving capital expenditure and expenses
- Regular Senior Management meetings are held to discuss and resolve major issues arising from business operations
- Quarterly meetings for the Audit & Corporate Governance Committee and the Board are held to discuss internal audit reports, periodic financial statements and issues that warrant Audit and Corporate Governance Committee and Board attention; in respect of risk management framework, a Risk Management Committee was established, to evaluate, monitor and manage the risks that may impede the achievements of the Bank's business objectives

Minor internal control weaknesses were identified during the year of review. None of the weaknesses have resulted in any material losses, contingencies or uncertainties.

Nature and approval process of related party transactions

The balance with related parties mainly comprises investments in associates. Associates are the companies where the Bank holds 20% or more of the share capital by way of direct investment or investment through Special Purpose Vehicles in its ordinary course of business.

Such investments also go through the same approval processes as required for all investments of the Bank.

Transactions with related parties in 2016 mainly comprise of share of loss from associates and remuneration paid to the Shari'ah Supervisory Board.

Changes in Organisation Structure

There were no changes to the Organisation Structure of the Bank during the year.

Departmental Structure

Executive Management	
Subhi Benkhadra	Chief Executive Officer (CEO)
Fareeda Rostam	PA to the CEO
Investment	
Marcus Scott	Chief Investment Officer
Hemant Bhadra	Head of Direct Investments
Murtaza Ghulam	Principal
Reem Al-Sairafi	Officer
Marieta Cano	Executive Secretary
Ruby Castro	Executive Secretary
Investment Placement & Investor Relations	
Bashar Al-Shaikh	Principal
Omar Shaheen	Principal, Investor Relations
Bushra Ali Al-Madhi	Officer, Investor Relations
Khatoon Ahmed	Officer, Investor Relations
Finance	
Michael Ross-McCall	Chief Financial Officer (CFO)
Augustine Peter	Director
Haleema Ebrahim	Associate, Treasury
Hassan Abbas	Finance Officer
Internal Audit	
Muzzafar Allana	Head of Internal Audit
Risk Management	Head of Risk Management - Vacant
Compliance &MLRO	
Arwa Al Sharaf	Head of compliance and MLRO
Khatoon Ahmed	Officer, Compliance
Legal	
Mai Abdulaziz Abul	Chief Legal Officer and Board Secretary
Information Technology	
Said Itani	Head of Information Technology
Sayed Hussein Mahdi	Associate
Internal Shari'ah Review	
Mahmood Al-Qassab	Head of Shari'ah Review
Sayed Mahmood Alawi	Administration Officer
Human Resource & Administration	
Sawsan Al-Ansari	Head of HR and Administration
Hussain Ali Jassim	General Services
Maryam Al-Madeh	Receptionist & General Secretary

CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2016

Ownership Details of the Bank

The following table shows the distribution of ownership of the Bank by nationalities as on the reporting date.

Country	Number of shareholders	Number of shares	Percentage
Kingdom of Bahrain	7	2,406,158	2.19%
State of Kuwait	39	16,452,201	14.96%
State of Qatar	11	6,931,862	6.30%
Kingdom of Saudi Arabia	34	28,882,213	26.26%
United Arab Emirates	19	52,323,363	47.57%
Total	110	106,995,797	97.28%
Treasury shares	1	3,000,000	2.72%
Overall Total	111	109,995,797	100.00%

The following table shows the distribution of ownership by directors and senior managers of the bank as on the reporting date.

Name	Position	Number of shares	Percentage
Saeed A J Al Faheem	Chairman	26,374,704	23.98%
Ahmed Salem Bugshan	Board Member	3,908,404	3.55%
Ali Hashem Sadeq	Board Member	3,908,404	3.55%
Bader Ebrahim Al Saedan	Board Member	1,650,000	1.50%
Ali Haider Al Haider	Board Member	1,627,907	1.48%
Abdulwahab Al Wazzan	Board Member	813,953	0.74%
Fareed Bader	Board Member	350,000	0.32%
Wasim Saifi	Board Member	-	-

The following table shows the distribution of ownership by size of shareholding in the Bank as on the reporting date.

Shareholding size	Number of shareholders	Number of shares	Percentage
Above 5% ownership	1	26,374,704	23.98%
Less than 5% ownership	110	83,621,093	76.02%
Total	111	109,995,797	100.00%

There was no trading in the Bank's shares by directors and senior managers of the Bank during the year. There are no shareholdings in the Bank by the Bahrain Government or any other Governments.

Remuneration of Board Members

The remuneration paid to Board members for the year 2016 was nil.

Fees paid to External Auditors

Information relating to the fee paid to external auditors for audit and non-audit services including quarterly review of prudential returns and public disclosures reviews are maintained at the Bank. This information is available to shareholders on request.

Fines paid to regulator

During the year 2016, the Bank paid total penalties of BHD 122,700, which were imposed by the CBB due to delay in compliance of regulatory submission requirements.

Communications Strategy

A summary of the Bank's quarterly and annual financial statements is published in local and regional newspapers. The Bank maintains a website, www.iib-bahrain.com which contains the last five years of annual financial data as at 31 December, together with summary financial data covering the interim quarterly financial statements. It also contains a profile of the Bank, details of the principal products and services, profiles of the senior managers and regular press releases concerning investment transactions and other developments.

Inquiries are made to the relevant departments by email to: info@iib-bahrain.com

Client Enquiries and Complaints

The Bank has assigned a designated team in Investor Relations to maintain a log of client queries/complaints. A brief of client inquiry/complaint is prepared and forwarded to the concerned Investment Manager, who prepares a draft response. It is then forwarded to the Chief Investment Officer who approves the response, which is then forwarded to the client. An entry is made in the log of queries / complaints to record the Bank's response.

Additional Governance Controls

The Board has approved a number of policies, which are communicated to management and all staff. These cover subjects including risk management, anti-money laundering, ethical behaviours, personal conduct, financial control, human resources and business continuity.

Corporate governance is also supported by the ongoing reviews performed by the Internal Audit Department and the External Auditors. The reviews confirm that the policies and internal control procedures conform to best practice and are being fully complied with by management and staff.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS
FOR THE YEAR ENDED 2016

SUBHI BENKHADRA
CHIEF EXECUTIVE OFFICER

"With our management team now well established and a continuing healthy liquidity position, there is reason for optimism that 2017 can be the long awaited turnaround year for IIB and its justifiably concerned shareholders."

2016 was another very difficult year, with the Bank recording further substantial losses. The new management team's efforts to turn around the toxic legacy investments which have been inherited and make up the bulk of the balance sheet, are mitigating but not eliminating the litany of problems. Furthermore, all investment proposals made during the year were turned down. This has resulted not only in a lack of improvement in performance but in a substantial deterioration. The net loss for 2016 was US$ 20.9 million and unrealised losses attributable to the fair value of Bank assets of US$ 2.1 million have been recognised directly in equity.

The Bank experienced significant issues and loss of value during the year on a number of key assets including Al Fareeda in the KSA, Queenex in the UAE and Arabian Sugar in Bahrain.

Three assets continue to do reasonably well although they have required intensive management attention: Proptex in the USA, Sarajevo City Center in Bosnia and Finnair in Europe.

The net loss includes significant non-cash and other non-recurring items. The non-cash items of US$ 16.9 million, or 80.9%, of the net loss relate to impairment of investment assets with an aggregate US$ 54.6 million net book value. The other non-recurring expenses of a further US$ 0.7 million or 3.3% of the net loss relate primarily recruitment fees, legal fees and consultancy fees.

Despite the losses for the year, IIB's balance sheet remains very strong, with very little debt (reduced during the year to US$ 10.0 million from US$ 30.0 million in 2015) and total liquid assets at year end 2016 of US$ 20.9 million representing 10.5% of total assets.

Management has managed to achieve two exits during the year comprising ARTES in Tunisia and the real estate portfolio located in Germany. Several other exits are at advanced stages of negotiations for completion in 2017.

Management is committed to ensuring that IIB complies fully with its regulatory and compliance responsibilities. During the early part of the year the Central Bank of Bahrain ("CBB") conducted a major inspection of the Bank, which unfortunately identified numerous breaches of the CBB Rules and Guidelines. This resulted in a warning letter being issued with an order to halt all new business until the CBB is satisfied that all the issues have been remedied. The senior management team had already addressed the majority of the issues under their control well before the final CBB Inspection Report was issued and has continued to make significant progress, with only a very limited number of outstanding items remaining that require further time to conclude. It is hoped that the ban on new business will be lifted very soon.

With the management team now well established and a continuing healthy liquidity position, there is reason for optimism that 2017 can be the long awaited turnaround year for IIB and its justifiably concerned shareholders.

SUBHI BENKHADRA
CHIEF EXECUTIVE OFFICER

US$ 20.9 m
Total liquid assets at year end 2016

FINANCIAL REVIEW
FOR THE YEAR ENDED 2016

Overview

The Bank has registered a net loss of US$ 20.9 million in 2016, compared to a restated net loss of US$ 29.4 million in the previous year. The losses include non-cash fair value provisions of US$ 16.9 million (2015: US$ 26.3 million), which represent 80.9%, of the 2016 net loss. Other non-recurring expenses in 2016 were US$ 0.7 million, representing 3.3% of the net loss.

Total assets at year-end 2016 aggregated to US$ 199.4 million and included cash and cash equivalents of US$ 11.0 million. Total equity at 31 December 2016 was US$ 111.5 million. Assets under management at the end of 2016 amounted to US$ 181.2 million.

The capital adequacy ratio at 31 December 2016 was 25.3% versus the minimum permitted by the Central Bank of Bahrain of 12.5%. The significantly higher level of capital adequacy provides sufficient scope for future planned investments from a regulatory standpoint.

Consolidated Statement of Income

Income

The Bank's total income for 2016 was negative US$ 4.4 million compared with negative US$ 9.7 million in 2015. The net loss within total income from fair valuing investment securities “through profit and loss” was US$ 7.4 million, compared to US$ 15.5 million in 2015. A net gain on the exit from investment securities located in Tunisia and Germany of US$ 0.9 million was reflected in 2016 (2015: net gains US$ 2.0 million). Net income of US$ 1.1 million was derived from assets acquired for leasing (aircraft purchased and leased). Investment banking fees in 2016 were only US$ 0.1 million as no structuring and placement fees were earned in the year. Income from placements with financial institutions of US$ 0.2 million reduced in 2016 as a result of lower average cash balances. Rental income from investment in real estate of US$ 0.3 million emanated from a residential tower located in central Manama.

Expenses

Total expenses in 2016 aggregated to US$ 7.8 million, a decrease of US$ 0.9 million compared to US$ 8.8 million in 2015. Finance expenses were $ 1.5 million (2015: US$ 2.1 million), which related to the taking in 2014 of a four-year financing liability in order to provide additional liquidity for investment. Non-recurring expenses of US$ 0.7 million were incurred, primarily relating to recruitment, regulatory costs, legal fees and consultancy fees. Excluding finance expenses, staff costs accounted for 56% of the total expenses and deal acquisition plus asset management costs (mainly legal fees, consultants' fees and travel) accounted for a further 9%, with the remaining 35% being attributed to occupancy, depreciation, (non-deal) legal & professional fees, and general operating costs.

Impairment Allowances

IIB booked unrealised impairment net losses on investments and receivables in 2016 of US$ 9.4 million (2015: US$ 10.9 million). The expense related to several investments with a wide geographical and industry mix, from a combination of foreign currency changes, changes in listed prices and changes in valuations received from expert real estate valuers and from in-house valuation models.

In addition, fair value net losses of US$ 2.1 million were reflected directly in equity (2015: net loss US$ 4.9 million) in accordance with the applicable accounting standards. Therefore, the combined unrealised losses from fair valuing investments at year end 2016 was US$ 19.0 million, compared to a net loss of US$ 31.2 million in 2015.

Consolidated Statement of Financial Position

Assets

Cash and cash equivalents at year-end 2016 were US$ 11.0 million and represented 5.5% of total assets. The total amount includes cash, balances with banks and due from financial institutions comprising commodity wakala placements with financially-sound banks located in the GCC region with a maximum maturity period of 90 days. With the addition of quoted investment securities valued at US$ 4.7 million and in listed Government of Bahrain sukuks of US$ 10.0 million, liquid and semi-liquid assets aggregated to US$ 25.7 million or 12.9% of total assets.

Total investments at 2016 year end decreased by US$ 1.3 million since 31 December 2015, to US$ 185.8 million. The net reduction reflected net purchases of investment securities of US$ 0.4 million, depreciation of US$ 3.5 million on assets acquired for leasing and the addition of US$ 20.4 million in assets held-for-sale arising from the acquisition of a subsidiary, less net unrealised fair value impairment allowances of US$ 19.0 million.

The bank concluded three investment purchases in 2016, costing US$ 10.7 million, and comprising the buy-back of shares from investors in the Tunisian automotive sector; the buy-back of shares from investors in the French real estate sector; and participation in a six-month Government of Bahrain sukuk. There were two exits or partial exits from investments during 2016: the automotive group in Tunisia and the real estate investment located in Germany. Including a recovery from an investment previously written off, the total proceeds received were US$ 8.0 million.

Total assets under management, computed on the year end value of the total equity provided by IIB and its investors, reduced from US$ 282.3 million at year end 2015 to US$ 181.2 million, mainly due to investment exits and net unrealised losses from lower asset valuations of several special purpose vehicles (“SPV”).

Other assets, totaling US$ 2.6 million, comprised receivables relating to investments of US$ 1.2 million considered to be fully recoverable, prepaid expenses, net equipment and sundry advances / deposits.

Liabilities and equity

Liabilities related to assets held-for-sale of US$ 14.5 million represent a bank financing to an SPV with real estate assets located in France. Following an offer to buy-back shares from investors, the SPV became a subsidiary of the Bank during 2016 that required the consolidation of the SPV’s assets and liabilities.

Financing liabilities of US$ 30.0 million, in the form of a medium term wakala payable, was received in December 2014 to augment the funds available for future investment activity. During 2016, US$ 20 million was prepaid and the remaining US$ 10 million is due for repayment in December 2018.

Liabilities related to assets acquired for leasing of US$ 60.8 million comprised funds obtained from two financial institutions that partly financed the purchase of an ijara aircraft for lease-back to the airline. Repayments are spread over an initial 12-year period and are fully covered by the rental income receivable.

Other liabilities of US$ 2.5 million mainly comprised payables by subsidiary companies relating to the aircraft lease of US$ 1.0 million, accrued expenses and payables to suppliers.

Total equity reduced from US$ 131.9 million to US$ 111.5 million at 2016 year end. The change in 2016 comprised the net loss for the year of US$ 20.9 million and the net loss from unrealised movements in fair values on investments amounting to US$ 2.1 million booked directly in equity, which was partly offset by an increase in non-controlling interest mainly from the share of 2016 net loss, and consolidation of total assets and liabilities of the new French subsidiary.

REMUNERATION DISCLOSURES
FOR THE YEAR ENDED 2016

The Bank has a transparent, structured and comprehensive Remuneration Policy that covers all types of compensation and benefits and includes the variable remuneration provided to employees at all levels of the Bank.

The Bank's Remuneration Policy is in line with the requirements of the Central Bank of Bahrain ("CBB"). The revised policy framework was approved by the Board of Directors and the Shareholders and the policy came into effect as of 27th April 2016.

The key features and objectives of the remuneration framework are summarised below.

Remuneration Policy

The fundamental principles underlying the Remuneration Policy are:

a. Remuneration offered by the Bank shall reflect the Bank's objective of attracting and retaining the best available talent in the industry. Remuneration will be at a level which will be commensurate with other Banks of similar activity in Bahrain, and will allow for changes in the cost of living index;

b. The Nomination & Remuneration Committee of the Board (NRC) shall actively oversee the remuneration system's design and operation for approved persons and/or material risk-takers. The CEO and senior management shall not primarily control the remuneration system;

c. The compensation package shall comprise a fixed component consisting of basic salary and allowances and discretionary variable pay or bonus. The compensation package offered to employees is based on the job content and complexity. Whilst the remuneration package for all approved persons and material risk takers shall be approved by the NRC, the remuneration packages for other employees are required to be approved by the CEO based on the overall remuneration policy;

d. In a very limited number of cases, a higher salary may be offered to prospective employees who are especially well qualified or experienced for the position, or who may be difficult to source. Careful consideration will be given to the effect of such an offer on existing salary levels. Such offers shall require approval as per the authority matrix and subject to the approval of the NRC;

e. Variable pay will be determined based on achievement of targets at the Bank level, business unit level and individual level;

f. Variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal:

1- Performance metrics for applicable business units are risk-adjusted where appropriate; and

2- Individual award determinations include consideration of adherence to compliance-related goals.

g. The remuneration package of employees in Control and Support functions (risk management, internal audit, operations, financial controls, internal Shari'ah review/audit, compliance and AML) are designed in such a way that they can function independently of the business units they support. Independence from the business for these employees is assured through:

1- Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviors while remaining competitive with the market, ie. their total remuneration will be weighted more in favour of salary;

2- Remuneration decisions are based on their respective functions and not the business units they support;

3- Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function;

4- Respective function's performance as opposed to other business units' performance is a key component for calculating individual incentive payments; and

5- Both qualitative and quantitative measures will be used to evaluate an individual's performance within these functions.

h. The Bank does not provide for any form of severance pay, other than as required by the Labour Law for the Private Sector Law No. 36 of 2012 of the Kingdom of Bahrain, to its employees. Under exceptional circumstances and subject to NRC approval, the Bank might offer sign on bonus or minimum variable pay for any new recruit limited to first year of employment only;

i. The Bank would not allow any of its employees, identified as approved persons as per CBB guidelines, to take any benefits from any projects or investments which are managed by the Bank or promoted to its customers or potential customers except for Board-related remuneration linked to their fiduciary duties to the investors of the project/investment including those appointed as members of the board of special purpose vehicles or other operating companies set up by the Bank for projects or investments;

j. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits;

k. If a senior manager is also a director, his remuneration as a senior manager must take into account compensation received in his capacity as a director; and

l. The Bank prohibits employees to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements. The Bank requires all employees to sign adherence to the Bank's code of ethics which includes the commitment of employees not to use personal hedging strategies or remuneration and liability-related insurance.

NRC role and responsibilities

The Board of Directors has formed a Nomination & Remuneration Committee. ("NRC" or the "Committee"). The NRC's roles and responsibilities includes the following with respect to the remuneration policy of the Bank:

a) Review the Bank's remuneration policies for the approved persons and material risk-takers, which must be approved by the shareholders and be consistent with the corporate values and strategy of the Bank;

b) Approve the remuneration policy and amounts for each approved person and material risk-taker, as well as the total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;

c) Approve, monitor and review the remuneration system to ensure it operates as intended;

d) Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Company Law;

e) The Committee shall carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. It must demonstrate that its decisions are consistent with an assessment of the Bank's financial condition and future prospects;

f) Design all the elements of remuneration, including fixed salary, allowances, benefits and variable pay schemes for all levels of employees in the Bank. In designing the Remuneration Policy, the NRC shall consider the Core Remuneration Policy of the Bank, the business strategy of the Bank, the regulatory pronouncements of the Central Bank of Bahrain and the Labour Law for the Private Sector Law No.36 of 2012 of the Kingdom of Bahrain and inputs from the CEO and Senior Management. However the CEO and Senior Management shall not have any decision-making authority with respect to the remuneration policy;

g) Approve the remuneration policy and amounts for each approved person and material risk-taker as well as the total variable remuneration to be distributed, taking account of total remuneration, including salaries, fees, expenses, bonuses and other employee benefits;

h) Approve targets and associated risk parameters, and variable pay for achieving the set target for each financial year;

i) Approve total variable remuneration to be distributed, considering the total remuneration, including salaries, fees, expenses, bonuses and other employee benefits at the end of the financial year based on the evaluation of actual performance as against the target for the financial year;

j) Approve, monitor and review the remuneration system on a regular basis to ensure the system operates as intended;

k) Undertake stress testing of the variable pay on a periodic basis to ensure that the variable pay scheme does not affect the Bank's solvency and risk profile, and its long term objectives and business goals;

l) Undertake back testing to adjust for ex-post risk adjustments to the variable pay paid in earlier years; and

The NRC comprises the following members:

			Number of meetings attended	
NRC Member Name	Appointment date	Resigning date	2016	2015
Mr. Ahmed Bugshan	27 March 2014		1	1
Mr. Ali Hashem	27 March 2014	23 February 2016	-	1
Mr. Ali Al Haider	23 February 2016		2	-
Mr. Wasim Saifi	23 February 2016		2	-

The aggregate remuneration paid to the NRC members during the year in the form of sitting fees amounted to USD 5,000 (2015: USD 2,000).

REMUNERATION DISCLOSURES (CONTINUED)
FOR THE YEAR ENDED 2016

External consultants

Consultants were appointed in 2016 to advise the Bank on its variable remuneration policy and to be in line with the CBB's sound remuneration practices and industry norms. This included assistance in designing appropriate phantom share-based Incentive Plan Rules.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 and 224 of the Bahrain Commercial Companies Law, 2001 (as amended). Moreover, the articles of association regarding remuneration of the Board of Directors shall be in line with the Rules outlined in the HC Module of the CBB rulebook applicable to the Bank.

Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

The process of determining the Board remuneration as per article 188 is as follows:

Step 1 –	Compute the results for the year.
Step 2 –	Determine whether profits were achieved and dividends paid to shareholders.
Step 3 –	If profits were made, deduct transfer to the statutory reserve, if any, from Net Profit.
Step 4 –	Deduct notional dividend at 5% of Net Profit or actual dividend, whichever is higher.
Step 5 –	Base for Board Remuneration computation.
Step 6 –	Board Remuneration (up to 10% of above).
Step 7 –	Make disclosures in the annual report, as required by regulatory requirements.
Step 3A –	If the Bank does not make profits, or during the years in which no dividends are paid to the shareholders, the Board of Directors' remuneration has to be first approved by the shareholders in the Annual General Assembly Meeting and subsequently by the Ministry of Industry and Commerce.

No Board Remuneration has been accrued or paid for 2016 as the Bank had incurred losses.

Variable remuneration for staff

The Bank has set the fixed remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus will be paid purely at the discretion of the NRC in recognition of the employees' exceptional efforts in any given financial year.

The variable pay scheme is based on the following premise:

1. Employees' incentive payments must be linked to the contribution of the individual and business to such performance to promote a performance-driven culture within the Bank.
2. Sensitive to the time horizon of risks and variable remuneration is therefore deferred accordingly.
3. Ensure those performers (unit or individual) who exceed the target are appropriately rewarded.
4. Align total compensation with industry practice.

Should the NRC decide to approve, the variable pay will be determined as follows:

1. The Bonus pool will be in direct proportion to the performance of the Bank. The target setting for the Bank considers the funding required for distribution of bonus, including the net book value based employee phantom or shadow shares.
2. The costs associated with the employee(s) shadow shares scheme are typically the following:
   i. The net book value of the shadow shares awarded as part of the bonus shall be charged to staff costs in full in the year of award;
   ii. The difference in net book value between the grant date and the vesting date. At the end of each performance period the difference between the net book value at the grant date and the current net book value for all the vested as well as unvested portion of the previous performance period(s) shadow shares will be charged to the income statement as part of staff costs;
3. Dividends on the awarded shadow shares for the performance period will be provided for and charged to the income statement as and when it is due to the employee;
4. Cash equivalent of bonus shadow shares, if any, declared on the awarded and unvested shares will be charged to the income statement;
5. Miscellaneous costs associated with administration of the ESSS will be charged to the income statement; and

6. The bonus pool is computed as a percentage of the realised profit, based on the level of target achieved.
7. This bonus pool is subject to the following additional limits:
   a. The impact of the Bonus Pool is not more than 1.00% on the capital adequacy as computed as per Basel III guidelines and taking into consideration the CBB's minimum capital adequacy requirements; and
   b. The Bonus Pool shall not exceed the total fixed remuneration paid during the financial year.
8. In the years when the Bank achieves less than 50% of the target or makes a loss, the Bank score is zero and so no bonus pool will be computed. In addition the NRC could invoke clawback or malus clause pertaining to the bonuses paid out in earlier years. Recognition of staff who have achieved or exceeded their targets may take place by way of deferred bonuses, which may be paid once the Bank's performance improves.

Remuneration of control functions

The remuneration level of staff in the control functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control function personnel is weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is determined independently from (and not by the individual financial performance of) the business areas they monitor.

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

Variable compensation for business units

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

Risk assessment framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy reduces employees' incentives to take excessive and undue risk, is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

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

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

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank takes into account the full range of current and potential risks, including:

a) The cost and quantity of capital required to support the risks taken;
b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRC keeps itself abreast with the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.

REMUNERATION DISCLOSURES (CONTINUED)
FOR THE YEAR ENDED 2016

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against risk assumptions. In years where the Bank suffers material losses, the risk adjustment framework would work as follows:

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean certain individual KPIs are not met and hence employee performance ratings would be lower.
- Reduction in value of deferred phantom shares or awards.
- If the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous bonus awards may be considered.

The NRC, with Board approval, can rationalise and make the following discretionary decisions:

- Increase/reduce the ex-post adjustment.
- Consider additional deferrals of phantom share awards.
- Recovery through malus and clawback arrangements.

Malus and clawback framework

The Bank's malus and clawback provisions allow the NRC to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable compensation could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term.

Any decision to take back an individual's award can only be taken by the NRC (taking into account the advice of the CEO and the Risk, Finance, HR, Legal & Compliance and other departments, as appropriate).

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

- Reasonable evidence of material error or a breach of Bank's policy by the employee(s);

The Bank or the Business Unit suffers material losses or significant loss of business which could be attributed to the actions of the employee(s);

- Where the employee(s) could be held responsible for material failure of risk management; and
- Where there is evidence of fraud or collusion amongst employee(s) or by employee(s) with third parties and which is prosecutable in a court of law.

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

Components of variable remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of the variable compensation that is awarded and paid in cash on a pro-rata basis over a period of three years.
Upfront phantom shares	The portion of variable compensation that is awarded and issued in the form of phantom shares on conclusion of the performance evaluation process for each year.
Deferred phantom shares	The portion of variable compensation that is awarded and paid in the form of phantom shares on a pro-rata basis over a period of three years.

All deferred awards are subject to malus provisions. All phantom share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of phantom share awards is linked to the Bank's share price as per the rules of the Bank's phantom share incentive plan rules. Any dividend on these phantom shares is released to the employee along with the phantom shares (i.e. after the retention period in line with the incentive plan rules).

Deferred compensation

All covered employees shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	CEO, his deputies and 5 most highly paid business line employees	Other covered staff	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	26,374,704	immediate	-	-	Yes
Deferred cash	10%	83,621,093	Over 3 years	-	Yes	Yes
Upfront phantom shares	-	83,621,093	immediate	6 months	Yes	Yes
Deferred phantom shares	50%	109,995,797	Over 3 years	6 months	Yes	Yes

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

Details of remuneration paid

(a) Board of Directors

	2016 (USD'000)	2015 (USD'000)
• Sitting fees	93	75
• Air ticket and hotel expenses	41	110
• Others	12	40

(b) Shari'ah Supervisory Board

	2016 (USD'000)	2015 (USD'000)
• Sitting fees	14	23
• Retention fees	100	100

REMUNERATION DISCLOSURES (CONTINUED)
FOR THE YEAR ENDED 2016

(c) Employee remuneration

2016											
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
(USD'000)	Number of staff	Cash	Others	(Cash / phantom shares)	(Cash / phantom shares)	Cash	Phantom shares	Cash	Phantom shares	Others	Total
Approved persons											
Business lines	9	1,382	127	-	-	-	-	-	-	-	1,509
Control & support	7	411	66	-	-	-	-	-	-	-	477
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	25	1,159	429	-	-	-	-	-	-	-	1,588
Total	41	2,952	622	-	-	-	-	-	-	-	3,574

2015											
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
(USD'000)	Number of staff	Cash	Others	(Cash / phantom shares)	(Cash / phantom shares)	Cash	Phantom shares	Cash	Phantom shares	Others	Total
Approved persons											
Business lines	9	1,117	485	-	-	-	-	-	-	-	1,602
Control & support	4	454	329	-	-	-	-	-	-	-	783
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	23	897	323	-	-	-	-	-	-	-	1,220
Total	36	2,468	1,137	-	-	-	-	-	-	-	3,605

(d) Deferred awards

There were no variable remuneration granted in 2016 or 2015 as the Bank had incurred losses for those years, hence, there were no deferrals and related disclosures are not applicable.

(e) Severance pay

IIB has not paid under Severance pay during 2016 and 2015 any amount other than what is contractual or law related requirements payments.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 2016

FINANCIAL STATEMENTS

31 DECEMBER 2016

SHARI'AH SUPERVISORY BOARD REPORT
INTERNATIONAL INVESTMENT BANK

On the audited Financial Statements for the year-ending December 31, 2016
International Investment Bank B.S.C (c)
In compliance with the terms of our letter of appointment, we are required to report as follows:

BANK PERFORMANCE
The Shari'ah Supervisory Board ("SSB") was presented with all the investment deals and transactions that were conducted by the International Investment Bank B.S.C (c) ("Bank") during the course of the year ending December 31, 2016. The SSB reviewed the principles and contracts relating to all these investments and transactions in order to issue an independent opinion on whether the Bank followed the principles of the Islamic Shari'ah, specific fatwas, and guidelines issued by the SSB, where the Bank's management is responsible for ensuring that its operations are carried out in compliance with SSB rulings.

INTERNAL SHARI'AH REVIEW
The SSB in association with the internal shariah reviewer has reviewed regularly all operations of the Bank.

BOARD MEETINGS
The SSB held four meeting during the year ending December 31, 2016.

The SSB responsibility is to present an independent view of the Bank's operations and to communicate it to the shareholders.

In our opinion:
1. The Bank's contracts, transactions and deals in general for the year ending December 31, 2016 comply with the rules and principles of the Islamic Shari'ah.
2. The Bank's allocation of profit and charging of losses relating to investment accounts comply with the rules and principles of the Islamic Shari'ah as per Accounting and Auditing Organization for Islamic Financial Institutions.
3. The Bank's allocation of earnings realized from non-Shari'ah compliant sources has been donated to charitable originations.
4. The Bank's calculation of Zakat complies with the rules and principles of the Islamic Shari'ah and has been calculated in accordance with the Net Asset Method described in the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") standards and it is the responsibility of the shareholders to pay their Zakat allocation.

We beseech the Almighty to grant us excellence and success.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sh. Dr. Nizam Yaqouby
Chairman

Sh. Dr. Osama Bahar
Member

Sh. Abdul Nasser Al-Mahmoud
Member

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
OF INTERNATIONAL INVESTMENT BANK B.S.C.(C)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated results of operations, its consolidated cash flows and its consolidated changes in owners' equity 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 Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the board of directors 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 and 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.

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 16 March 2017.

KPMG

KPMG Fakhro
Partner Registration no. 137
16 March 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS 31 DECEMBER 2016
US$ 000's

	Note	**31 December 2016**	31 December 2015 (Restated)
ASSETS			
Cash and balances with banks		2,564	3,654
Placements with financial institutions	5	8,406	35,751
Investment securities	8	66,605	83,483
Assets acquired for leasing	9	68,614	72,113
Investment in real estate	10	4,202	5,547
Musharaka financing	7	25,144	25,144
Equity-accounted investees	11	830	835
Assets held-for-sale	6	20,421	-
Other assets	12	2,630	3,707
Total assets		**199,416**	230,234
LIABILITIES			
Liabilities related to assets held-for-sale	6	14,487	-
Financing liabilities	13	10,187	30,560
Liabilities related to assets acquired for leasing	14	60,760	64,468
Other liabilities	15	2,504	3,258
Total liabilities		**87,938**	98,286
OWNERS' EQUITY			
Share capital	16	109,996	109,996
Treasury shares	16	(6,798)	(6,798)
Share premium	16	19,645	51,240
Accumulated losses		(27,485)	(37,369)
Statutory reserve		6,980	6,980
Investments fair value reserve		864	2,693
Property fair value reserve		-	262
Equity attributable to shareholders of Bank		**103,202**	127,004
Non-controlling interests		5,935	4,944
Non-controlling interests related to assets held-for-sale	6	2,341	-
Total owners' equity		**111,478**	131,948
Total liabilities and owners' equity		**199,416**	230,234

The consolidated financial statements consisting of pages 64 to 95 were approved by the Board of Directors on 16 March 2017 and signed on its behalf by:

Saeed Abdul Jalil Al Fahim	**Abdul Wahab Mohammed Al Wazzan**	**Subhi Benkhadra**
Chairman	Director and Chairman of Audit and Corporate Governance Committee	Chief Executive Officer

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

	Note	**2016**	2015 (Restated)
INCOME			
Income from investment securities	17	(5,984)	(13,023)
Income from assets acquired for leasing, net	9	1,099	2,734
Income from placements with financial institutions		179	236
Rental income from investment in real estate		338	407
Foreign exchange loss		(33)	(78)
Share of loss of equity-accounted investee		(5)	(14)
Total income		**(4,406)**	(9,738)
EXPENSES			
Staff cost	18	3,574	3,854
Finance expenses		1,487	2,060
Legal and professional expenses		912	784
Premises costs		306	287
Other operating expenses	19	1,560	1,782
Total expenses		**7,839**	8,767
Loss before impairment allowances		**(12,245)**	(18,505)
Impairment allowances (charge) / reversal:			
- Investment securities		(8,443)	(8,138)
- Investment in real estate		(1,083)	-
- Investment in equity-accounted investee		-	(1,577)
- Receivables		831	(1,178)
LOSS FOR THE YEAR		**(20,940)**	(29,398)
Attributable to:			
Shareholders of the Bank		(21,673)	(26,223)
Non-controlling interests		733	(3,175)
		(20,940)	(29,398)

The consolidated financial statements consisting of pages 64 to 95 were approved by the Board of Directors on 16 March 2017 and signed on its behalf by:

Saeed Abdul Jalil Al Fahim
Chairman

Abdul Wahab Mohammed Al Wazzan
Director and Chairman of Audit and Corporate Governance Committee

Subhi Benkhadra
Chief Executive Officer

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

US$ 000's

	Attributable to shareholders of the Bank										
31 December 2016	**Share capital**	**Treasury shares**	**Share premium**	**Accumulated losses**	**Statutory reserve**	**Investments fair value reserve**	**Property fair value reserve**	**Total**	**Non-controlling interests**	**Non-controlling interests held-for-sale**	**Total owners' equity**
Balance at 1 January 2016	109,996	(6,798)	51,240	(37,369)	6,980	2,693	262	127,004	4,944	-	131,948
Loss for the year (page 4)	-	-	-	(21,673)	-	-	-	(21,673)	733	-	(20,940)
Fair value changes during the year	-	-	-	-	-	(1,773)	(262)	(2,035)	-	-	(2,035)
Total recognised income and expense for the year	**-**	**-**	**-**	**(21,673)**	**-**	**(1,773)**	**-**	**(23,708)**	**733**	**-**	**(20,940)**
Adjustment of accumulated losses (note 16)	-	-	(31,595)	31,595	-	-	-	-	-	-	-
Transfer to income statement on disposal	-	-	-	-	-	(56)	-	(56)	-	-	(56)
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(142)	-	(142)
Changes in non-controlling interests	-	-	-	(38)	-	-	-	(38)	400	-	362
Non-controlling interests related to assets held-for-sale (note 9)	-	-	-	-	-	-	-	-	-	2,341	2,341
Balance at 31 December 2016	**109,996**	**(6,798)**	**19,645**	**(27,485)**	**6,980**	**864**	**-**	**103,202**	**5,935**	**2,341**	**111,478**

	Attributable to shareholders of Bank										
31 December 2015 (Restated)	Share capital	Treasury shares	Share premium	Accumulated losses	Statutory reserve	Investments fair value reserve	Foreign currency translation reserve	Property fair value reserve	Total	Non-controlling interests	Total owners' equity
Balance at 1 January 2015											
As previously reported	109,996	(6,798)	51,240	(8,210)	6,980	10,518	(2,936)	262	161,052	10,025	171,077
Effect of restatement (note 2 (e))	-	-	-	(2,936)	-	-	2,936	-	-	-	-
As restated	109,996	(6,798)	51,240	(11,146)	6,980	10,518	-	262	161,052	10,025	171,077
Loss for the year (page 4)	-	-	-	(26,223)	-	-	-	-	(26,223)	(3,175)	(29,398)
Fair value changes during the year	-	-	-	-	-	(6,354)	-	-	(6,354)	-	(6,354)
Reclassification to income statement on impairment of equity investment	-	-	-	-	-	(1,471)	-	-	(1,471)	-	(1,471)
Total recognised income and expense for the year	-	-	-	(26,223)	-	(7,825)	-	-	(34,048)	(3,175)	(37,223)
Non-controlling interests acquired – net	-	-	-	-	-	-	-	-	-	(1,906)	(1,906)
Balance at 31 December 2015	109,996	(6,798)	51,240	(37,369)	6,980	2,693		262	127,004	4,944	131,948

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

	2016	2015 (Restated)
OPERATING ACTIVITIES		
Loss for the year	(20,940)	(29,398)
Adjustments for:		
Fair value loss on investments classified as fair value through income statement	7,351	15,450
Impairment allowances	8,695	9,316
Share of loss of an associate	5	14
Depreciation and amortization	3,564	7,002
Provision against investment in equity-accounted investee	-	1,577
Finance expense	-	2,060
Amortisation of deferred expense	-	103
Gain on sale of investments, net	(907)	(2,042)
Operating (loss) / profit before changes in operating assets and liabilities	**(2,232)**	4,082
Changes in operating assets and liabilities:		
Other assets	1,077	(8,038)
Other liabilities	(2,830)	(1,309)
Net cash flows used in operating activities	**(3,985)**	(5,265)
INVESTING ACTIVITIES		
Purchase of investments	(8,458)	(45,113)
Net cash flows on acquisition of subsidiary held-for-sale	(2,253)	-
Proceeds from disposal of investments	8,020	27,175
Purchase of equipment, net	(66)	(27)
Net cash flows used in investing activities	**(2,757)**	(17,965)
FINANCING ACTIVITIES		
Financing liabilities repaid	(20,373)	-
Distribution to non-controlling interests	(1,320)	
Net cash flows used in financing activities	**(21,693)**	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(28,435)**	(23,220)
Cash and cash equivalents at beginning of the year	39,405	62,635
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**10,970**	39,405
Cash and cash equivalents comprise:		
Cash and balances with banks	2,564	3,654
Placements with financial institutions (with original maturities of 3 months or less)	8,406	35,751
	10,970	39,405

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

1. INCORPORATION AND ACTIVITIES

International Investment Bank B.S.C. (c) (the "Bank"), is a joint stockholding company incorporated in the Kingdom of Bahrain on 6 October 2003 under commercial registration (CR) number 51867. The Bank operates as an Islamic Wholesale Investment Bank under a license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is 37th floor, Al Moayyed Tower, PO Box 11616, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board (SSB) whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank and its subsidiaries (together the "Group") include investment advisory services and investment transactions, which comply with Islamic rules and principles according to the opinion of the Group's Shari'a Supervisory Board.

Consolidated financial statements

The consolidated financial statements comprise the results of the Bank and its subsidiaries.

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

Subsidiary	Beneficial ownership interests		Year of incorporation / acquisition	Country of incorporation	Principal activity
	2016	2015			
Isthetmary Sarajeevo City Centre –I Limited	93.77%	93.77%	2009	Cayman Islands	Investment in real estate
Isthetmary Al Fareeda B.S.C. (c)	100%	100%	2008	Bahrain	Investment in real estate
Bahrain Bunny Shares & Securities Co WLL.	63.10%	63.10%	2012	Bahrain	Investment in quick service restaurant business
Multifamily Residential Ltd –I ("MR-I")	100%	100%	2013	Cayman Islands	Investment in real estate
Multifamily Residential Ltd – II ("MR-II")	100%	100%	2013	Cayman Islands	Investment in real estate
IIBN Aircraft Lease SPC Limited	100%	100%	2014	Cayman Islands	Purchase and lease of aircraft
IIB German Property Company Limited	56.83%	-	2016	Cayman Islands	Investment in real estate
IIB France Investments Holding BSC (c)	50.57%	-	2016	Bahrain	Investment in real estate

The Group has other special purpose entities (SPE's) holding companies which are set up to supplement the activities of the Group and its principal subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated 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 and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards ('IFRS').

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for certain investment securities and investment in real estate that are carried at fair value. The consolidated financial statements are presented in United States Dollars (US$), being the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

c) Basis of consolidation

i) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control 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 and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and the SPE, the Group performs a reassessment of control over the SPE. The Group in its fiduciary capacity also manages and administers assets held in trust and other investment vehicles on behalf of investors.

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 28.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

2. BASIS OF PREPARATION (Continued)

c) Basis of consolidation (Continued)

ii) Investment in associates (Equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exit when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – Investment in Associates for venture capital recognised and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer note 3 (b)).

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an equity-accounted investee at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment. When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

If the ownership interest in an equity-accounted investee is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in equity is reclassified to the consolidated income statement where appropriate.

iii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions and any recognised gains or losses 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 investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as recognised gains, but only to the extent that there is no evidence of impairment.

The reporting period of the Group's subsidiaries and equity-accounted investees are identical and their accounting policies conform to those used by the Group for similar transactions and events in similar circumstances. The accounting policies of the subsidiaries and equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

d) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated income statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated income statement. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

2. BASIS OF PREPARATION (Continued)

e) Restatement

During the year, the Bank has reassessed the functional currency of its foreign operations. Based on the assessment, the Bank has determined that the functional currency of one of its subsidiary's was different from the functional currency of the Bank. As the subsidiary's operations are considered an extension of the operations of the Bank, the functional currency of the subsidiary was realigned with the Bank's functional currency. The Bank was carrying a foreign currency translation reserve arising from conversion of the assets and liabilities of the subsidiary which should have been recognised in the income statement. Accordingly, the Bank has restated the negative foreign currency translation reserve as at 1 January 2015 to the accumulated losses and have recognised the movement in foreign currency translation reserve amounting to US$ 3,140 thousand for the year 2015 to the "income from investment securities" as it represents foreign currency changes relating to investment in an associate carried at fair value through income statement. The restatement has resulted in an increase in the previously reported loss attributable to shareholder of the Bank by US$ 2,838 thousand and non-controlling interests by US$ 302 thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements.

New standards, amendments and interpretations issued but not yet effective for adoption

There are no AAOIFI accounting standards or interpretations issued that are effective for the first time for the financial year beginning on or after 1 January 2016 that would be expected to have a material impact on the Group.

a) 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$, which is the Group'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 US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

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

b) Investment securities

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

i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type instruments

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

These investments are either not managed on contractual yield basis or designated on initial recognition at FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognised the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

At amortised cost

This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis. These include investments in short term to long-term sukuk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Investment securities (Continued)

i) Classification (Continued)

Equity-type instruments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments designated on initial recognition at FVTIS.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in private equity, funds and investment in equity accounted investees (refer note 2 c (ii))

At fair value through equity (FVTE)

Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. This category includes investment in unquoted equity securities.

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 de-recognised 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. For investments carried at FVTIS, transaction costs are expensed in the consolidated income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

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 statement of changes in equity is transferred to the consolidated income statement.

Investments carried 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 where there are no 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 recognised using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. 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.

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Investment securities (Continued)

vi) Measurement principles (Continued)

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

c) Placements with financial institutions

These comprise inter-bank placements made using Shari'a compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

d) Musharaka financing

Musharaka financing is a form of a partnership between the Bank and its clients / investors whereby each party contributes to the capital in partnership in equal or varying degrees to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have his due share of profits. However, losses are shared in proportion to the contributed capital.

Musharaka financing is recognized at the amount paid or made available, when it is paid to the partner or made available to them on account of the musharaka. The Group's share in musharaka financing is measured at the date of consolidated statement of financial position at historical cost. Profits in respect of the Group's share in musharaka financing transactions are recorded to the extent the profits are distributed and declared and losses are recognized to the extent that such losses are being deducted from the Group's share of musharaka capital.

e) Investment in real estate

Investment in real estate comprises of a building held to earn rental income and/or are expected to benefit from capital appreciation. Investment in real estate are measured initially at cost, including directly attributable expenditure. Subsequently, investment in real estate are carried at fair value.

Any recognised gains arising from changes in the fair value of investment in real estate shall be recognised directly in owners' equity under "Property fair value reserve".

Investment in real estate is derecognised when they have been disposed of or when an investment in real estate is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment in real estate is recognised in the consolidated income statement in the year of retirement or disposal.

Any losses resulting from re-measurement at fair value of investment in real estate carried at fair value shall be adjusted in owners' equity against the property fair value reserve to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the losses shall be recognised in the consolidated income statement. In case there are recognised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the recognised gains relating to the current financial period shall be recognised to the extent of crediting back such previous losses in the consolidated income statement.

f) Assets and liabilities related to assets acquired for leasing

Assets acquired for leasing represents aircraft acquired by the Group for lease and stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the estimated useful life of the assets. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset and the estimated recoverable amount. Impairment losses, if any, are recognised in the consolidated income statement.

Liabilities related to assets acquired for leasing represent long term finance facilities obtained from financial institutions. Liabilities related to assets acquired for leasing are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing costs are recognised in the consolidated income statement as finance expense. The Group derecognises its liability relating to assets acquired for leasing when its contractual obligations are discharged, cancelled or expire.

g) Assets held-for-sale

Classification

The Group classifies non-current assets or disposal groups as held-for-sale if its carrying amount is expected to be recovered within twelve months principally through a sale transaction rather than through continuing use. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Assets held-for-sale (Continued)

Classification (Continued)

If the criteria for classification as held-for-sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held-for-sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, recognised or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and investment property carried at fair value, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated income statement. Gains are not recognised in excess of any cumulative impairment loss.

Measurement

Non-current assets or disposal groups (other than financial instruments) classified as held-for-sale, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' continue to be measured in accordance with their stated accounting policies. On classification of equity-accounted investee as held-for-sale, equity accounting is ceased at the time of such classification as held-for-sale. Non-financial assets (i.e. intangible assets, equipment) are no longer amortised or depreciated.

h) Impairment of assets

The Group assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement.

Investments carried at fair value through equity (FVTE)

In the case of equity type instruments carried at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss.

If any such evidence exists for equity type instruments, the recognised re-measurement loss shall be transferred from equity to the consolidated income statement. Impairment losses recognised in consolidated income statement for an equity investment are reversed directly through equity.

Other non-financial assets

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

Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

i) Financing liabilities

Financing liabilities represents long term finance facilities from financial institutions. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing costs are recognised in the consolidated income statement as finance expense. The Group derecognises a financing liability when its contractual obligations are discharged, cancelled or expire.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

US$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Share capital and reserves

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Treasury shares

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

Statutory reserve

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

k) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and placements with financial institutions with original maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

l) Revenue recognition

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

Management and other fees are recognised as income when earned and the related services are performed and there is no uncertainty on its collectability.

Income from placements financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

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

Fair value gain / (loss) on investment securities (recognised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 3 (b)).

Gain on sale of investment securities (recognised gain) is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

Income from assets acquired for leasing are recognised proportionately over the lease term.

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

m) Earnings prohibited by Shari'a

The Group is committed to avoid recognised any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means.

n) Zakah

Pursuant to the decision of the shareholders', Zakah is the responsibility of the shareholders. The Group is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board and provided for in the Bank's website.

o) Employees benefits

i) Short-term benefits

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Employees benefits (Continued)

ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature under, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in consolidated income statement when they are due.

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

p) Dividends and other appropriations

Dividends to shareholders and other appropriations are recognised as liabilities in the period in which they are declared and approved by the shareholders in a general meeting.

q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

r) Contingent liabilities and contingent assets

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

s) Leases

Payments under operating lease are recognised in the consolidated income statement on a straight line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

t) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

u) 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.

v) Offsetting of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets include cash and balances with banks, placements with financial institutions, financing receivables, investment securities and other assets. Financial liabilities include wakala payable, financing liabilities related to assets acquired for leasing and other liabilities.

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

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

w) The Group's operates under one segment "Investment Banking", therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgement

Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 3 (b)).

Special Purpose Entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Classification as held-for-sale

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

Estimations

Fair value of financial instruments

The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial information. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

Impairment on investments carried at fair value carried through equity

Equity-type instruments classified as investments at FVTE comprise investments in certain unquoted equity securities in diversified sectors. In assessing impairment, the Group evaluates among other factors, liquidity of the investee, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in operational and financing cash flows. The Group has exposures to investments that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

Fair value of investment in real estate

The fair value of investment in real estate is determined by independent real estate valuation experts. Having recent experience in the locations and segments of the investment in real estate that is being valued. The determination of the fair value of such assets requires the use of judgment based on estimates by independent valuation experts that are based on local market conditions existing at the reporting date. For all investment in real estate, their current use equates to the highest and best use. Buildings were valued based on capitalization of future rental cash flows, and expected realizable amounts through sale in an orderly manner.

Impairment of receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated.

Impairment of non-financial assets

The fair value of non-financial assets are measured using valuation techniques such as discounted cash flow valuations and recent transaction prices.

5. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2015
Commodity murabaha	8,409	35,767
Deferred income	3	(16)
	8,406	35,751

These represent short term placements entered with financial institutions carrying profit rate ranging from 0.60% to 0.85% (2015: 0.65% to 0.91%) per annum and maturities ranging from two to four weeks.

6. ASSETS AND LIABILITIES HELD-FOR-SALE

As of 2 August 2016, the Group acquired additional stake of 47.58% in IIB France BSC (c) (IIBF), a company incorporated in Kingdom of Bahrain and in which the Group already owned 2.99% resulting in IIBF becoming a subsidiary. The main activity of IIBF is to lease 3 commercial properties for rental in France through PEIRI Holding, a company incorporated in France.

As per acquisition accounting requirements, the net identifiable assets and liabilities were provisionally recognized on acquisition were measured at their fair values on the date of acquisition. The total consideration for the controlling stake amounted to US$ 2,394 thousand. The Bank has provisionally recognised identifiable assets of US$ 20,421 thousand and liabilities of US$ 14,487 thousand at the date of acquisition which also represents the management's estimated fair value less cost to sell of the investment.

The Group has an active plan to sell its stake in IIBF, and accordingly, the asset and liabilities acquired are classified as held-for-sale and presented in the condensed consolidated statement of financial position. Equity stake held by external parties amounting to US$ 2,341 thousand are classified as "non-controlling interests related to assets held-for-sale" in the consolidated statement of financial position. The net income from assets held for sale, for the period from date of acquisition to 31 December 2016 is insignificant, hence no effect was considered in the consolidated income statement.

7. MUSHARAKA FINANCING

Musharaka financing represents equity participation by the Bank through debt and equity structure for acquisition of properties in United States of America (USA) through structured vehicles. The Bank has 95% economic interest in Atlas Multifamily Three LLC ("Atlas"), the company incorporated in USA for holding the properties. The properties were acquired through a combination of debt US$ 210 million and Musharaka of US$ 25 million. The current fair value of the properties as at 31 December 2016 amounts to US$ 250 million (2015: US$ 246 million).

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8. INVESTMENT SECURITIES

		31 December 2016	31 December 2015
	Debt type instruments		
	At amortized cost		
-	Quoted sukuk	9,966	4,987
	Equity type instruments		
	At fair value through income statement		
-	Unquoted equity securities	40,781	48,071
	At fair value through equity		
-	Quoted equity securities	4,724	6,105
-	Unquoted equity securities	11,134	24,320
		66,605	83,483

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

	2016	2015
At 1 January	48,071	51,068
Acquisitions during the year	-	14,589
Fair value changes	(7,290)	(17,586)
Disposals during the year, at carrying value	-	-
At 31 December	**40,781**	48,071

b) Equity type investments - At fair value through equity

	2016	2015
At 1 January	30,423	42,640
Purchase during the year	3,480	-
Acquisition of subsidiary	(2,943)	
Fair value changes	(1,659)	(6,599)
Disposals during the year, at carrying value	(4,434)	(407)
Impairment charge for the year	(9,009)	(5,211)
At 31 December	**15,858**	30,423

Quoted investments include US$ 4,189 thousand (2015: US$ 4,897 thousand) held on behalf of the Bank, in the name of related parties for which risk and rewards are borne by the Bank.

9. ASSETS ACQUIRED FOR LEASING

Aircraft:	2016	2015
Cost		
At 1 January	77,750	77,750
Additions during the year	-	140,847
Disposals during the year	-	(140,847)
At 31 December	**77,750**	77,750
Accumulated depreciation		
At 1 January	5,637	2,138
Charge for year	3,499	7,382
Disposals during the year	-	(3,883)
At 31 December	**9,136**	5,637
Net book value at 31 December	**68,614**	72,113

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9. ASSETS ACQUIRED FOR LEASING (Continued)

Assets acquired for leasing comprise one aircraft acquired in 2015 through a combination of equity and financing and leased to Finn Air for a period of 12 years. Depreciation is calculated based on estimated useful life of 12 years and residual value of US$ 36 million for one aircraft (2015: 2 aircraft).

Income of assets acquired for leasing represents:

	2016	2015
Lease rental income	8,132	15,798
Less:		
Finance cost	(3,196)	(5,361)
Depreciation	(3,499)	(7,053)
Other operating expenses	(388)	(650)
Income of assets acquired for leasing, net	**1,099**	2,734

2016	**Up to 1 year**	**1-5 years**	**Over 5 years**
Future minimum lease rentals	8,154,180	32,616,720	37,373,325

2015	Up to 1 year	1-5 years	Over 5 years
Future minimum lease rentals	8,154,180	32,616,720	45,527,505

10. INVESTMENT IN REAL ESTATE

	31 December 2016	31 December 2015
Buildings	4,202	5,547
	4,202	5,547

	2016	2015
At 1 January	5,547	5,547
Fair value changes	(262)	-
Impairment	(1,083)	-
At 31 December	**4,202**	5,547

Investment in real estate comprise of a building, in Kingdom of Bahrain. During the year the property has generated an average net monthly income of US$ 38.4 thousand (2015: US$ 34.5 thousand), the building is currently vacant and the management is actively looking for tenants to occupy the property. The property is stated at fair value, determined based on valuations performed by two independent professional valuers as of 31 December 2016.

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11. EQUITY-ACCOUNTED INVESTEES

Investment in associates comprise:

Entity	Country of incorporation	% holding	Nature of activities
IIB UAE Investments Limited	Cayman	27.32%	Invest in income generating residential, office and commercial real estate assets

	2016	2015
At 1 January	835	4,703
Share of equity-accounted investees	(5)	(14)
Share of reserve of equity accounted investees	-	(2,277)
Impairment allowance	-	(1,577)
At 31 December	**830**	835

Summarised financial information of associate that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group and related subsequent acquisition accounting adjustment (based on most recent audited financial statements / most recent management accounts):

	2016	2015
Assets	13,256	23,944
Liabilities	989	981
Revenue	-	-
(Loss) / profit for the year	(24)	(62)

12. OTHER ASSETS

	31 December 2016	31 December 2015
Receivables	1,089	2,061
Accrued profit on sukuk	158	120
Staff receivable	40	60
Prepaid expenses	130	141
Equipment	181	180
Others	1,032	1,145
	2,630	3,707

13. FINANCING LIABILITIES

Financing liabilities represents Wakala financing obtained in 2014 from a Ministry in the Kingdom of Bahrain on unsecured basis. The wakala financing is repayable on December 2018 and carries annual profit rate of 6%. During the period, the Group partially repaid US$ 20 million of the financing liabilities.

14. LIABILITIES RELATED TO ASSETS ACQUIRED FOR LEASING

Liabilities related to assets acquired for leasing represents financing obtained in the form of a senior loan and mezzanine loan to fund assets acquired for leasing (note 9). The financing carries yearly profit rate of 4.34% - 6.5% with maturity in July 2026. The assets acquired for leasing are mortgaged towards repayment of the financing and does not have a recourse to the Bank

The breakdown of the liabilities is as given below:

	31 December 2016	31 December 2015
Current portion	57,045	60,753
Non-current portion	3,715	3,715
	60,760	64,468

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15. OTHER LIABILITIES

	31 December 2016	31 December 2015
Employee related accruals	706	754
Advance rent received	-	69
Accrued expenses	835	1,508
Other payables	963	927
	2,504	3,258

16. SHARE CAPITAL

	31 December 2016	31 December 2015
Authorized:		
200,000,000 (2015: 200,000,000) ordinary shares at US$ 1 per share	**200,000**	200,000
Issued, subscribed and paid-up capital		
109,996,000 (2015: 109,996,000) ordinary shares at US$ 1 per share	**109,996**	109,996

During the year, in the extra ordinary general meeting of the shareholders held on 27 April 2016, the shareholders approved adjustment of accumulated losses of US$ 31,595 thousand against the share premium of the Bank.

At 31 December 2016, the Bank held 3,000,000 (31 December 2015: 3,000,000) treasury shares.

17. INCOME FROM INVESTMENT SECURITIES

	2016	2015
Gain on sale of investment securities	907	2,042
Fair value changes on investment securities	(7,351)	(15,450)
Income from sukuk	334	117
Dividend and other income	126	268
	(5,984)	(13,023)

18. STAFF COST

	2016	2015
Salaries and benefits	3,490	3,732
Social insurance expenses	84	122
	3,574	3,854

19. OTHER EXPENSES

	2016	2015
Deal related expenses	484	459
Directors sitting fees	93	75
Directors expenses	53	140
Shari'a supervisory board expenses	114	123
Advertisement expenses	72	99
Business travel expenses	72	93
Depreciation	65	51
IT expenses	84	45
Others	524	697
	1,560	1,782

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20. CONCENTRATION OF ASSETS AND LIABILITIES

a) Geographic region

The geographical distribution of the Group's assets and liabilities as of 31 December 2016 is as follows:

31 December 2016	GCC	Bahrain	America	Europe	Others	Total
Assets						
Cash and balances with banks	7	1,434	-	1,123	-	2,564
Placements with financial institutions	-	8,406	-	-	-	8,406
Investment securities	31,034	11,400	-	23,838	333	66,605
Assets acquired for leasing	-	-	-	68,614	-	68,614
Investment in real estate	-	4,202	-	-	-	4,202
Musharaka financing	-	-	25,144	-	-	25,144
Equity-accounted investees	830	-	-	-	-	830
Assets held-for-sale	-	-	-	20,421	-	20,421
Other assets		515	606	1,476	33	2,630
Total assets	**31,871**	**25,957**	**25,750**	**115,472**	**366**	**199,416**
Liabilities						
Financing liabilities	-	10,187	-	-	-	10,187
Liabilities related to assets held-for-sale	-	-	-	14,487	-	14,487
Liabilities related to assets acquired for leasing	-	-	-	60,760		60,760
Other liabilities	-	1,990	-	514	-	2,504
Total liabilities	**-**	**12,177**	**-**	**75,761**	**-**	**87,938**

31 December 2015	GCC	Bahrain	America	Europe	Others	Total
Assets						
Cash and balances with banks	399	2,174	-	1,081	-	3,654
Placements with financial institutions	-	35,751	-	-	-	35,751
Investment securities	45,546	8,486	-	27,257	2,194	83,483
Assets acquired for leasing	-	-	-	72,113	-	72,113
Investment in real estate	-	5,547	-	-	-	5,547
Musharaka financing	-	-	25,144	-	-	25,144
Equity-accounted investees	835	-	-	-	-	835
Other assets	240	383	513	2,521	50	3,707
Total assets	**47,020**	**52,341**	**25,657**	**102,972**	**2,244**	**230,234**
Liabilities						
Financing liabilities	-	30,560	-	-	-	30,560
Liabilities related to assets acquired for leasing	-	-	-	64,468	-	64,468
Other liabilities	-	3,258	-	-	-	3,258
Total liabilities	**-**	**33,818**	**-**	**64,468**	**-**	**98,286**

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20. CONCENTRATION OF ASSETS AND LIABILITIES (Continued)

b) Industry sector

The industrial distribution of the Group's assets and liabilities as of 31 December 2016 is as follows:

	Trading and Manufacturing	Banks and financial institutions	Real estate	Transportation	Others	Total
31 December 2016						
Assets						
Cash and balances with banks	-	2,562	-	-	2	2,564
Placements with financial institutions	-	8,406	-	-	-	8,406
Musharaka financing	-	-	25,144	-	-	25,144
Asset held-for-sale	-	-	20,421	-	-	20,421
Investment securities	6,472	10,299	39,437	-	10,397	66,605
Equity-accounted investees	-	-	830	-	-	830
Investment in real estate	-	-	4,202	-	-	4,202
Assets acquired for leasing	-	-	-	68,614	-	68,614
Other assets	1	208	972	1,094	355	2,630
Total assets	**6,473**	**21,475**	**91,006**	**69,708**	**10,754**	**199,416**
Liabilities						
Financing liabilities	-	-	-	-	10,187	10,187
Liabilities related to assets held-for-sale	-	-	14,487	-	-	14,487
Liabilities related to assets acquired for leasing	-	-	-	60,760	-	60,760
Other liabilities	-	31	-	476	1,997	2,504
Total liabilities	**-**	**31**	**14,487**	**61,236**	**12,184**	**87,938**

	Trading and Manufacturing	Banks and financial institutions	Real estate	Transportation	Others	Total
31 December 2015						
Assets						
Cash and balances with banks	-	3,654	-	-	-	3,654
Placements with financial institutions	-	35,751	-	-	-	35,751
Musharaka financing	-	-	25,144	-	-	25,144
Investment securities	11,844	6,224	55,707	954	8,754	83,483
Equity-accounted investees	-	-	835	-	-	835
Investment in real estate	-	-	5,547	-	-	5,547
Assets acquired for leasing	-	-	-	72,113	-	72,113
Other assets	-	-	1,891	50	1,766	3,707
Total assets	**11,844**	**45,629**	**89,124**	**73,117**	**10,520**	**230,234**
Liabilities						
Financing liabilities						
Liabilities related to assets acquired for leasing	-	-	-	-	30,560	30,560
Other liabilities	-	-	-	64,468	-	64,468
Total liabilities	-	45	-	453	2,760	3,258
Total liabilities	**-**	**45**	**-**	**64,921**	**33,320**	**98,286**

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21. MATURITY PROFILE OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2016	Up to 3 months	3 months to 1 year	Total up to 1 year	1 to 3 years	3 to 5 years	No stated maturity	Total
Assets							
Cash and balances with banks	2,564	-	2,564	-	-	-	2,564
Placements with financial institutions	8,406	-	8,406	-	-	-	8,406
Musharaka financing	-	-	-	-	25,144	-	25,144
Assets held-for-sale	-	20,421	20,421	-	-	-	20,421
Investment securities	-	4,979	4,979	56,639	4,987	-	66,605
Equity-accounted investees	-	-	-	830	-	-	830
Investment in real estate	-	-	-	4,202	-	-	4,202
Assets acquired for leasing	-	-	-	-	68,614	-	68,614
Other assets	348	109	457	785	1,207	181	2,630
Total assets (a)	**11,318**	**25,509**	**36,827**	**62,456**	**99,952**	**181**	**199,416**
Liabilities							
Liabilities related to assets held-for-sale	-	14,487	14,487	-	-	-	14,487
Financing liabilities	-	187	187	10,000	-	-	10,187
Liabilities related to assets acquired for leasing	-	-	-	-	-	60,760	60,760
Other liabilities	1,321	188	1,509	995	-	-	2,504
Total liabilities (b)	**1,321**	**14,862**	**16,183**	**10,995**	**-**	**60,760**	**87,938**
Commitments (c)	**53**	**160**	**213**	**44**	**-**	**-**	**257**
Net liquidity gap (a-b-c)	**9,944**	**10,487**	**20,431**	**51,417**	**99,952**	**(60,579)**	**111,221**
Cumulative net liquidity gap	**9,944**	**10,487**	**20,431**	**51,417**	**99,952**	**(60,579)**	**111,221**
31 December 2015							
Assets							
Cash and balances with banks	3,654	-	3,654	-	-	-	3,654
Placements with financial institutions	35,751	-	35,751	-	-	-	35,751
Musharaka financing	-	-	-	-	25,144	-	25,144
Investment securities	-	-	-	78,496	4,987	-	83,483
Equity-accounted investees	-	-	-	835	-	-	835
Investment in real estate	-	-	-	5,547	-	-	5,547
Assets acquired for leasing	-	-	-	-	72,113	-	72,113
Other assets	1,498	1,308	2,806	87	634	180	3,707
Total assets (a)	40,903	1,308	42,211	84,965	102,878	180	230,234
Liabilities							
Financing liabilities	560	-	560	30,000	-	-	30,560
Liabilities related to assets acquired for leasing	874	2,677	3,551	11,657	49,260	-	64,468
Other liabilities	2,189	315	2,504	754	-	-	3,258
Total liabilities (b)	3,623	2,992	6,615	42,411	49,260	-	98,286
Commitments (c)	53	160	213	258	-	-	471
Net liquidity gap (a-b-c)	37,227	(1,844)	35,383	42,296	53,618	180	131,477
Cumulative net liquidity gap	37,227	(1,844)	35,383	42,296	53,618	180	131,477

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

US$ 000's

22. 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-Dec-16				31-Dec-15			
	Associates	**Major shareholders / entities in which directors are interested**	**Assets under management**	**Total**	Associates	Major shareholders / entities in which directors are interested	Assets under management	Total
Assets								
Musharaka financing	-	-	25,144	**25,144**	-	-	25,144	25,144
Investment securities	34,442	4,516	17,681	**56,639**	33,210	4,897	39,386	77,493
Equity-accounted investees	830	-	-	**830**	835			835

	2016				2015			
	Associates	**Major shareholders / entities in which directors are interested**	**Assets under management**	**Total**	Associates	Major shareholders / entities in which directors are interested	Assets under management	Total
Income								
Share of loss of equity-accounted investees	(5)	-	-	**(5)**	(14)	-	-	(14)
Income from investment securities	1,171	-	(8,522)	**(7,351)**	(7,595)	-	(4,715)	(12,310)
Expenses								
Impairment allowances	-	-	(9,009)	**(9,009)**	-	-	(8,138)	(8,138)

Key management personnel

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

The key management personnel compensation is as follows:

	2016	2015
Board member fees and allowance	146	215
Salaries, other short-term benefits and expenses	2,422	2,806
Post-employment benefits	194	201

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23. FINANCIAL RISK MANAGEMENT

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

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risk

Risk in inherent in the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his/her responsibilities. The Group has a risk management and governance framework which is intended to integrate risk management in its strategic thinking and business practices.

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.

Risk Management and Governance Structure

Board of Directors

The Board of Directors ["the Board"] is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Committee

The Audit Committee is appointed by the Board and consists of three non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Executive Committee

The Executive Committee comprising of the Board members considers and approves requests to purchase and sell individual investments up to the limit imposed by the Board.

Risk Management Committee

The Risk Management Committee has the overall responsibility for establishing the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Shari'a Supervisory Board

The Shari'a Supervisory Board reviews the principles and contracts relating to the transactions conducted by the Group to judge whether it followed the principles of the Islamic Shari'a and specific fatwas, rulings and guidelines issued.

Asset and Liability Committee

The Assets & Liabilities Committee is responsible for monitoring liquidity risk, profit rate risk, foreign currency limits/exposures, capital adequacy and the overall asset/liability mix.

Investment Committee

Potential deals are presented to the Investment Committee and Risk Management Committee for consideration and those worthy of further evaluation are forwarded to the Executive Committee for initial approval to initiate detailed due diligence procedures.

Risk Management Department

The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Group. It ensures that there are adequate control procedures in place such that the risks exposed to are within the approved limits.

Internal Audit

Risk management processes throughout the Group are audited at least annually by the Internal Audit Department, based on the risk-based audit plan approved by the Audit Committee. Audit staff examine both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, then reports its findings and recommendations to the Audit Committee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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23. FINANCIAL RISK MANAGEMENT (Continued)

Risk Management and Reporting Structure

Currently, the Group's assets mainly comprise cash and balances with banks, due from financial institutions, receivables and investments (including investment in real estate, asets held-for-sale, investment in ijarah asset and investment in associates). Balances with banks and due from financial institutions represent deposits with GCC incorporated banks with investment grade credit ratings. Investments comprise mainly retentions in the Bank's investment offerings, which are illiquid.

Monitoring and controlling risks is primarily performed based on limits approved by the Board. These limits reflect the business strategy and market environment of the Group as well as the level of risk that it is willing to accept, with additional emphasis on selected industries.

The Group also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

a) 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. Being a wholesale investment bank, the Group is involved in investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Shari'a Board. Credit risk arises largely through balance with banks, short-term placements with financial institutions, financing receivables, musharaka financing, receivable from ijarah investors, investment in securities and other assets.

The Group manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. Counterparty limits are established with the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to revision at the time of renewal of the facility.

The Board has delegated responsibility for the management of credit risk to its ICRC. ICRC is the highest management-level authority on all credit exposures. The overall role of ICRC is to facilitate the business of the Group in the most effective and efficient manner within the risk guidelines specified by the Board or its designated RC. Prior to funding a facility, and regardless of its size, the ICRC provides an independent assessment of the opportunity, highlighting key risks prior to commitment.

The RMD regularly monitors the level of risk within the Group's portfolio to ensure that appropriate level of economic capital is maintained. This process ensures that the required risk capital is below the available equity, which results in a positive equity cushion. The RMD ensures that the Bank maintains appropriate asset diversification by geography, industry and investment type.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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23. FINANCIAL RISK MANAGEMENT (Continued)

a) 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 except for investment securities (equity-type) which is already disclosed in note 24. The figures represent gross exposure net of any provision for impairment, without taking into account any collateral held and other credit mitigants.

	Maximum exposure	
	31 December 2016	31 December 2015
Balances with banks	2,562	3,652
Placements with financial institutions	8,406	35,751
Musharaka financing	25,144	25,144
Investment Securities (Sukuk)	9,966	4,987
Other financial assets	1,090	2,062
	47,168	71,596

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:

	2016 US$ '000	2015 US$ '000
Credit rating:		
A- and better	479	4,126
Ba1 and better	11,138	7,186
Unrated	35,551	60,284
	47,168	71,596

Ageing of financial assets

31 December 2016	**Neither past due not impaired**	**Past due but not impaired**	**Individually impaired**	**Impairment / provisions**	**Total**
Balances with banks	2,562	-	-	-	**2,562**
Placements with financial institutions	8,406	-	-	-	**8,406**
Musharaka financing	25,144	-	-	-	**25,144**
Investment securities (sukuk)	9,966	-	-	-	**9,966**
Other financial assets	1,156	-	(66)	-	**1,090**
	47,234	**-**	**(66)**	**-**	**47,168**

31 December 2015	Neither past due not impaired	Past due but not impaired	Individually impaired	Impairment / provisions	Total
Balances with banks	3,652	-	-	-	3,652
Placements with financial institutions	35,751	-	-	-	35,751
Musharaka financing	25,144	-	-	-	25,144
Investment securities (sukuk)	4,987	-	-	-	4,987
Other financial assets	2,104	-	(42)	-	2,062
	71,638	-	(42)	-	71,596

Past due represents amount overdue for 90 days or more. These are real estate exposures located mainly in Europe.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

US$ 000's

23. FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations associated with financial liabilities.

The main action to manage the Group's liquidity is through the adherence to limits on liquidity mismatches. These include the limits of the cumulative excess of maturing liabilities over assets in the short-term and limits on dependence on short-dated funds.

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

	Gross undiscounted cash flows				
	Less than 3 months	**3 to 12 months**	**Over 1 year**	**Total**	**Carrying value**
At 31 December 2016					
Financing liabilities	150	450	10,600	11,200	**10,187**
Liabilities related to assets acquired for leasing	1,726	5,179	60,992	67,897	**60,760**
Liabilities held for sale	-	14,487	-	14,487	**14,487**
Other financial liabilities	1,321	188	995	2,504	**2,504**
Total financial liabilities	**3,197**	**20,304**	**72,587**	**96,088**	**87,938**
Commitments	-	-	-	-	-
At 31 December 2015					
Financing liabilities	450	1,350	33,600	35,400	30,560
Liabilities related to assets acquired for leasing	1,726	5,179	67,897	74,802	64,468
Liabilities held for sale	-	-	-	-	-
Other financial liabilities	3,258	-	-	3,258	3,258
Total financial liabilities	5,434	6,529	101,497	113,460	98,286
Commitments	-	-	-	-	-

c) Market risks

Market risk is the risk that changes in market prices, such as profit rates, equity prices, foreign exchange rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises equity position risk, profit rate risk, commodities risk, currency risk and other price risk.

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

The Group is not exposed to commodities or price risk as there is no commodity holding either in the banking or trading book. Market risk for the Group arises only on account of its foreign exchange exposure and listed equities in the banking book.

The Group manages its market risk exposures by limiting the exposure to listed equities and foreign exchange exposure and evaluating each new product and activity with respect to the market risk introduced by it.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

23. FINANCIAL RISK MANAGEMENT (Continued)

c) Market risks (Continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Certain investments and other financial assets and liabilities are in other currencies and give rise to foreign currency risk.

The Bahraini Dinar (BHD), Saudi Riyal (SAR) and UAE Dirham (AED) are pegged to the US$ and resultantly positions in these currencies are not considered to represent significant currency risk. The Group had the following net foreign currency exposures at 31 December 2016:

	2016 US$ '000	2015 US$ '000
Euro	27,796	5,329
GBP	210	631
AZN (Azerbaijani Manat)	333	1,237
Others	-	954
	28,340	8,151

Positions are monitored regularly and the Group is not exposed to any significant currency risk.

	Change in currency rate % exchange rate (+/-) %	**2016 Effect on net loss/equity (+/-) US$ '000**	2015 Effect on net income/equity (+/-) US$ '000
Euro	**10%**	**2,780**	533
GBP	**10%**	**21**	63
AZN (Azerbaijani Manat)	**10%**	**33**	124
Others	**10%**	**-**	95

Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2016, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus US$ 236K thousand (2015: US$ 305 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The Group also has unquoted investments carried at fair value using either net asset value or valuations from independent valuers. Based on the values at 31 December 2016, a change in the valuation of 5% would change the value of these investments by plus or minus US$ 556 thousand (2015: US$ 1,213 thousand) with a corresponding increase or decrease in equity, except in case of further decline on impaired investments which will result in loss being taken to consolidated statement of income.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its counterparties repay or request repayment earlier or later than expected. The Group is not exposed to any significant prepayment risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

US$ 000's

23. FINANCIAL RISK MANAGEMENT (Continued)

c) Market risks (Continued)

Profit rate risk in banking book

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised based on contractual repayment arrangements:

31 December 2016	Up to 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Total
Assets					
Placements with financial institutions	8,406	-	-		8,406
Investment securities (sukuk)	-	4,979	-	4,987	9,966
Total profit rate sensitive assets	**8,406**	**4,979**	**-**	**4,987**	**18,372**
Liability					
Liabilities related to assets acquired for leasing	966	2,898	15,456	41,440	60,760
Financing liabilities	-	-	10,000	-	10,000
Total profit rate sensitive liabilities	**966**	**2,898**	**25,456**	**41,440**	**70,760**
Profit rate sensitivity gap	**7,440**	**2,081**	**(25,456)**	**(36,453)**	**(52,388)**

31 December 2015	Up to 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Total
Assets					
Placements with financial institutions	35,751	-	-		35,751
Investment securities (sukuk)	-	-	-	4,987	4,987
Total profit rate sensitive assets	35,751	-	-	4,987	40,738
Liability					
Liabilities related to assets acquired for leasing	966	2,898	15,456	45,148	64,468
Financing liabilities	-	-	30,000	-	30,000
Total profit rate sensitive liabilities	966	2,898	45,456	45,148	94,468
Profit rate sensitivity gap	34,785	(2,898)	(45,456)	(40,161)	(53,730)

The Group does not have floating rate non-trading financial assets or liabilities.

d) Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank applies the Basic Indicator Approach ('BIA') to measure operational risk and has implemented operational risk management framework. The operational risk management framework consists of the following: i) 'Risk Control and Self-Assessment': Self-assess operational risks by going through key business processes end-to-end; ii) Evaluate the adequacy of existing process controls; iii) Implement control modifications to reduce operational risks and determine residual risks; and iv) Monitor and report operational risk events to senior management and the Board.

The Group has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") to enable the Group to survive a disaster and to reestablish normal business operations. The DR&BCP will enable the Group to minimize interruptions to business service operations, resume critical operations within a specified time after a disaster, minimize financial loss due to disruptions, limit the severity of the disruption, expedite the restoration of services and maintain a positive public image of the Bank.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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US$ 000's

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed, willing parties (seller and buyer) in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

Valuation techniques

Fair value of quoted securities are derived from quoted market prices in active markets. In case of unquoted securities, the fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The fair value of unquoted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor, the market value of a comparable company or other proprietary valuation models.

The fair value of other financial instruments on the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements.

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

- **Level 1** quoted (unadjusted) prices in active markets for identical assets or liabilities;
- **Level 2** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- **Level 3** Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2016	Level 1	Level 2	Level 3	Total
- fair value through income statement	-	-	40,781	40,781
- fair value through equity	4,724	-	11,134	15,858
	4,724	**-**	**51,195**	**56,639**
31 December 2015				
Investments carried at				
fair value through income statement	**-**	**-**	**48,071**	**48,071**
fair value through equity	**6,105**	**24,320**	**-**	**30,425**
	6,105	**24,320**	**48,071**	**78,496**

Movements in level 3 financial instruments

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	31 December 2016	31 December 2015
At 1 January	48,071	13,025
Fair value changes	7,655	(3,207)
Purchases during the year	2,252	-
Disposals during the year	(2,258)	-
Re-classification / restatement adjustment	-	38,253
Settlements	-	-
Sales and transfers into (out) of Level 3	11,505	-
At 31 December	51,195	48,071

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016
US$ 000's

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2016.

For investment securities the Bank adjusted the discount rate ± 1% and carrying values ± 5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

25. SHARI'A SUPERVISORY BOARD

The Group's independent Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

26. EARNINGS PROHIBITED BY SHARI'A

Earnings prohibited by Shari'a, if earned are set aside for charitable purposes or otherwise dealt with in accordance with directions of the Shari'a Supervisory Board.

27. ZAKAH AND SOCIAL RESPONSIBILITY

Zakah is directly borne by the shareholders on distributed profits. Zakah payable by the shareholders, is computed by the Bank, based on the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders for the year ended 31 December 2016 is US$ Nil (2015: US$ Nil) subject to approval of shareholders.

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

28. ASSETS UNDER MANAGEMENT

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position. In 2016 total assets under management amounted to US$ 56,639 (31 December 2015 US$ 78,496).

29. CAPITAL MANAGEMENT

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

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

- **Tier 1 capital**: includes CET1 and AT1

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

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

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

The regulatory adjustments are subject to limits prescribed by the 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. 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.

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29. CAPITAL MANAGEMENT (Continued)

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

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

	2016	2015
Total risk-weighted exposures	**407,950**	563,547
CET1 capital	103,287	122,265
Tier 1 capital	103,287	122,265
Total Capital	103,287	122,265
% of Total Risk Weighted Exposures (CAR)		
CET1 capital adequacy ratio	**25.31%**	21.7%
Tier1 capital adequacy ratio	**25.31%**	21.7%
Total capital adequacy ratio	**25.31%**	21.7%

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

30. SOCIAL RESPONSIBILITY

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

31. COMPARATIVES

Certain prior year amounts have been regrouped to conform to current year's presentation. Such regrouping did not affect previously reported loss for the year or owners' equity except to the effect of restatement mentioned in note 2(e).

ADDITIONAL PUBLIC DISCLOSURES
AS AT 31 DECEMBER 2016
US$ 000's

1. RISK AND CAPITAL MANAGEMENT

Introduction

The disclosures under this section have been prepared in accordance with the CBB requirements outlined for Islamic banks in its Public Disclosure Module, of Volume 2 of the CBB rulebook (the 'PD Module"). Rules concerning the disclosures under this section are applicable to International Investment Bank B.S.C. (c) (IIB/the "Bank") being a locally incorporated Bank with a wholesale Islamic Investment banking license and subsidiaries (together known as "the Group"). This document should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016 and the qualitative disclosures in the annual report for the year ended 31 December 2016. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Bank for the year ended 31 December 2016 and the Annual Report for the year ended 31 December 2016. Information already included in the consolidated financial statements are not repeated.

Basis of Consolidation for Accounting and Regulatory Purposes

For the purpose of preparation of consolidated financial statements, the Bank consolidates all subsidiaries which are fully owned or exercises significant control over them except for the subsidiaries noted below which are booked at fair value of the Investment held. The subsidiaries are consolidated from date of acquisition being the date on which the group obtains control and continues until the control ceases. 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. The principal subsidiaries not consolidated for regulatory purposes are as follows:

Subsidiaries	Country of incorporation	Total Assets	Total Liabilities	Description
IB France Holding Company BSC (c)	Kingdom of Bahrain	4,150,691	261,364	Investment holding vehicle for property lease
IIB German Property Limited	Cayman islands	747,450	13,138	Investment holding vehicle for property lease
IIB Aircraft Lease SPC Limited	Cayman islands	71,468,000	61,347,000	Purchase and lease of aircraft to airline company

Composition of capital disclosure

ADDITIONAL PUBLIC DISCLOSURES
AS AT 31 DECEMBER 2016
US$ 000's

1. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Table 1 - Statement of financial position under the regulatory scope of consolidation

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	31 December 2016		
	Statement of financial position as in published financial statements (USD '000)	Statement of financial position as per regulatory reporting (USD '000)	Reference
Assets			
Cash and balances with banks	2,564	897	
Placements with financial institutions	8,406	8,406	
Musharaka Financing	25,144	26,117	
Investment securities	66,605	68,113	
Of which related to insignificant investments in financial entities under CET1		542	G
Of which related to significant investments in financial entities under CET1		-	
Of which related to other investments		67,571	
Assets acquired for leasing	68,614	9,593	
Assets held-for-sale	20,421		
Investment in real estate	4,202	4,202	
Equity-accounted investees	830	830	
Other assets	2,630	2,694	
Total assets	**199,416**	**120,852**	
Liabilities			
Financing liabilities	10,187	10,187	
Liabilities related to assets acquired for leasing	60,760		
Liabilities related to assets-held-for-sale	14,487		
Other liabilities	2,504	7,418	
Total liabilities	**87,938**	**17,605**	
Shareholders' Equity			
Share capital	109,996	109,996	A
Treasury Shares	(6,798)	(6,798)	B
Share Premium	19,645	26,603	C
Statutory reserve	6,980	5,588	D
Accumulated losses	(27,485)	(33,007)	F
Property fair value reserve	-		
Investment Fair Value Resrerve	864	865	E
Equity attributable to shareholders of the Bank	**103,202**	**103,247**	
Non-controlling interests	5,935		
Non-controlling interests held for sale	2,341		
Total owners' equity	**111,478**	**103,247**	
Total liabilities and owners' equity	**199,416**	**120,852**	

ADDITIONAL PUBLIC DISCLOSURES

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1. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Table 2 - Composition of regulatory capital

The table below provides a detailed breakdown of the bank's regulatory capital components, including all regulatory adjustments. The table also provides reference to the comparison displayed in Table 1 between accounting and regulatory statement of financial positions.

	31 December 2016	
	Components of regulatory capital (USD '000)	Amounts subject to pre-2015 treatment (USD '000)
Common Equity Tier 1 capital: instruments and reserves		
Directly issued qualifying common share capital plus related stock surplus	109,996	
Retained earnings	(33,007)	
Treasury shares	(6,798)	
Share premium	26,603	
Accumulated other comprehensive income (and other reserves)	6,453	
Common Equity Tier 1 capital before regulatory adjustments	**103,247**	
Common Equity Tier 1 capital: regulatory adjustments		
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	542
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-
Regulatory adjustments applied to common equity Tier 1 in respect of amounts subject to pre-2015 treatment	-	
Total regulatory adjustments to Common equity Tier 1	**-**	**542**
Common Equity Tier 1 capital (CET1)	**103,247**	
Additional Tier 1 capital (AT1)	**-**	
Tier 1 capital (T1 = CET1 + AT1)	**103,247**	
Tier 2 capital: instruments and provisions		
Provisions	-	
Tier 2 capital before regulatory adjustments	**-**	
Tier 2 capital (T2)	**-**	
Total capital (TC = T1 + T2)	**103,247**	
Risk weighted assets in respect of amounts subject to pre-2015 treatment	**708**	
Of which: Insignificant investments in the common shares of financial entities <10% - Listed (RW at 100%)	208	
Of which: Insignificant investments in the common shares of financial entities <10% - Unlisted (RW at 150%)	500	
Of which: Significant investment in the common shares of financial entities >10% (RW at 250%)	-	
Total risk weighted assets	**407,950**	
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk weighted assets)	**25.31%**	
Tier 1 (as a percentage of risk weighted assets)	**25.31%**	
Total capital (as a percentage of risk weighted assets)	**25.31%**	
National minima including CCB (where different from Basel III)		
CBB Common Equity Tier 1 minimum ratio	6.50%	
CBB Tier 1 minimum ratio	8.00%	
CBB total capital minimum ratio	10.00%	

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1. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Disclosure template for main feature of regulatory capital instruments as at 31 December 2016:

1	**Issuer**	International Investment Bank BSC (c)
2	**Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)**	N/a
3	**Governing law(s) of the instrument**	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Equity shares
8	**Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)**	USD 109 Million
9	**Par value of instrument**	USD 1.0
10	**Accounting classification**	Shareholder's equity
11	**Original date of issuance**	4 October 2003
12	**Perpetual or dated**	Perpetual
13	Original maturity date	No maturity
14	**Issuer call subject to prior supervisory approval**	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	NA
23	**Convertible or non-convertible**	
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	**Write-down feature**	
31	If write-down, write-down trigger (s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	**Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)**	NA
36	**Non-compliant transitioned features**	NA
37	**If yes, specify non-compliant features**	NA

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1. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Table 3 - Capital requirement by type of Islamic financing contracts (PD - 1.3.17)

The following table summarizes the capital requirements by type of Islamic financing contracts:

	31 December 2016	
	Risk Weighted Amount (USD '000)	Capital requirements (USD '000)
Type of Islamic financing contracts		
Murabaha	1,682	210
Sukuk	9,966	1,246
	11,648	**1,456**

	31 December 2016		
	On- & Off Balance Sheet Credit Exposures before CRM (USD '000)	Credit Risk Weighted Assets (USD '000)	Capital requirements (USD '000)
Cash items	2		-
Claims on Sovereigns	9,966		-
Claims on PSEs	-	-	-
Claim on banks	9,301	1,871	234
Claim on Corporations	-		-
Past Due Facilities	1,938	1,938	242
Investments in Equity Securities and Equity Sukuk	57,298	205,603	25,700
Holding of Real Estate	41,591	157,960	19,745
Other assets	755	755	94
	120,851	**368,127**	**46,015**

Table 4 - Capital requirement for Market risk (PD–1.3.18)

The following table summarizes the amount of exposures subject to the standardized approach of market risk and related capital requirements:

	31 December 2016 (USD '000)
Market Risk - Standardized Approach	
Price Risk	-
Equity Position Risk	-
Sukuk Risk	2,010
Foreign exchange risk	-
Commodities Risk	-
Total of market risk - standardized approach	**2,010**
Multiplier	**12.5**
Total Market Risk Weighted Exposures	**25,125**
Minimum capital requirement (12.5%)	**3,141**

Governance arrangements, systems and controls employed by the bank to ensure Shari'a compliance (PD-1.3.10(cc))

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1. RISK AND CAPITAL MANAGEMENT (CONTINUED)

	31 December 2016 (USD '000)
Indicators of operational risk	
Year	**2013**
Gross Income	11,141
Average gross income	**7,839**
Multiplier	**12.5**
	97,988
Eligible Portion for the purpose of the calculation	**15%**
Total operational Risk Weighted Exposures	**14,698**
Minimum capital requirement (12.5%)	**1,837**

To ensure compliance with Islamic Shari'ah principles, IIB's Shari'ah Review Department reviews the documentation relating to the Bank's day-to-day transactions, reviews policies and procedures and conducts regular departmental reviews. The Shari'ah Supervisory Board meets at least four times a year to review all investment products and business activities, approve the Bank's financial statements including meeting applicable AAOIFI standards and participate with management in the development of suitable investment products and services. IIB's Shari'ah Supervisory Board comprises three prominent Bahraini Islamic scholars who provide the Bank with pragmatic Islamic opinions.

In addition, further verification to ensure Shari'ah compliance is performed by IIB's Internal Audit function and by expert Shari'ah consultants who provide an annual external audit report on the Bank's operations. All parties have confirmed that the Bank continued to be Shari'ah-compliant throughout 2016.

Board Remuneration

The Directors receive an attendance fee of US$ 1,000 per meeting attended either in person or by tele-conference, together with the reimbursement of actual travel and accommodation expenses in connection with attending Board and Board Committee meetings. No retainer fees were paid to the Directors during 2016.

Displaced Commercial Risk

Displaced Commercial Risk ("DCR") refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Bank does not have DCR as it does not have any profit sharing investment accounts (PSIAs).

Highly Leveraged Counterparties

The Bank assess counterparties through financial and non-financial due diligence and uses CBB's definition of Highly Leveraged Counterparties to determine exposure to them. The Bank does not have exposures to any Highly Leveraged Counterparties.

Past Due and Impaired Islamic Financing

The Group defines non–performing facilities as the facilities where the principal or profit is overdue for a period of 90 days or more. These exposures are placed on a non–accrual status with income being recognized to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue installments and payments.

As a policy, the Group has placed on a non–accrual status any facility where there is reasonable doubt about the collectability of the receivable irrespective of whether the customer concerned is currently in arrears or not.

Financing receivables are stated at cost less impairment allowances. Specific provisions are created for impairment where losses are expected to arise on non-performing contracts. These assets are written off when they are considered to be uncollectable to reduce all impaired assets to their expected realizable values. Deferred income and provision for impairment are netted off against the related receivables. The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired.

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1. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Impairment losses on murabaha receivables and debt-type instruments at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognized in the consolidated statement of income and reflected in an allowance account against murabaha receivables and debt-type instruments at amortized cost. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

As of 31 December 2016, the bank has no impaired, past due islamic financing.

PD 6.1.1 Change in auditors during the year

To adhere to Corperate Governance best practices, The Board and Management have decided to rotate the external auditors during the year ended 31 December 2016.

Recourse Transactions

The Bank does not currently have any obligations with respect to recourse transactions.

Restructuring of Credit Facilities

No facilities were restructured during the year 2016.

Liquidity ratios (PD-1.3.37)

The following table summarizes the liquidity ratios as of:

	31 December 2016
Liquid assets to total assets	**12.87%**
Short term assets to short term liabilities	**180.25%**

Formula is as follows:

Liquid Assets to total assets = (Cash and bank balances + due from financial institutions + Quoted sukuks+Quoted Inv)/total assets

Short term assets to short term liabilities = Assets with up to one year maturity/liabilities with up to one year maturity

Equity price risk

Equity price risk management

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2016, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus USD 236 thousand (2015: USD 305 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements.

An assessment is made at each year-end to determine whether there is any objective evidence that equity investments may be impaired. Any impairment for significant and prolonged decline in the value of investments is reflected as a write down of investments. Any subsequent increase in their fair value is recognized directly in equity.

Equity Position Risk in the Banking Book (PD-1.3.31(b), (c) & (f))

The following table summarizes the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2016:

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1. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Impairment losses on murabaha receivables and debt-type instruments at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognized in the consolidated statement of income and reflected in an allowance account against murabaha receivables and debt-type instruments at amortized cost. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

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The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements.

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The following table summarizes the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2016:

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1. RISK AND CAPITAL MANAGEMENT (CONTINUED)

	Total gross exposure (USD '000)	* Average gross exposure over the period (USD '000)	Publicly Traded (USD '000)	Privately held (USD '000)	Capital requirement (USD '000)
Fair value through income statement	**40,781**	**45,767**	**-**	**40,781**	**5,098**
Fair value through equity	**15,858**	**24,057**	**4,724**	**11,134**	**1,982**
Investment in equity-accounted investees	**830**	**834**	**-**	**830**	**104**
	57,469	**70,658**	**4,724**	**52,745**	**7,184**

Rate of return risk management

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities:

Table 5 - Rate of Return Risk

2016	Up to 3 Months (USD '000)	3 months to 1 year (USD '000)	1 to 5 years (USD '000)	Above 5 Years (USD '000)	Total (USD '000)
Assets					
Placements with financial institutions	8,406	-	-	-	**8,406**
Investment securities	-	4,979	-	4,987	**9,966**
Total profit rate sensitive assets	**8,406**	**4,979**	**-**	**4,987**	**18,372**
Liabilities					
Financing liabilities	-	-	10,000	-	**10,000**
Liabilities related to assets acquired for leasing	966	2,898	15,456	41,440	**60,760**
Total profit rate sensitive liabilities	**966**	**2,898**	**25,456**	**41,440**	**70,760**
Profit rate sensitivity gap	**7,440**	**2,081**	**(25,456)**	**(36,453)**	**(52,388)**

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) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by USD 1,047 thousand (2015:USD 1,074.6 thousand).

The rate of return risk is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers. The Group is not exposed to any significant rate of return risk and is aware of the factors that give rise to rate of return risk. Factors that possibly will affect rate of return may include an increase in long-term fixed rates in the market. The Bank is also aware of the fact that in general, profit rates earned on assets reflect the benchmark of the previous period and do not correspond immediately to changes in increased benchmark rates.

The Bank uses a combination of mismatch gap limits to measure and control its rate of return risk. Mismatched positions are regularly monitored to ensure that mismatch is maintained within established limits.

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1. RISK AND CAPITAL MANAGEMENT (CONTINUED)

Counterparty Credit Risk

Introduction

A counterparty is defined as an obligor (individual, company, other legal entity), a guarantor of an obligor, or person receiving funds from the Group. It also includes the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

The measure of exposure reflects the maximum loss that the Group may suffer in case the counterparty fails to fulfill its commitments. Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. Large exposure is any exposure whether direct, indirect or funded by restricted investment accounts to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's Capital Base. The Group has adopted Standardized Approach to allocate capital for counterparty credit risk.

Credit Limit Structure

The Bank has put in place an internal counterparty limit structure which is based on internal or external ratings for different types of counterparties. The Bank has also set concentration limits as a percentage of shareholders equity. In case of a counterparty rating degrade, the Bank may require further collateral or advise the counter party to reduce its exposure on a case by case basis.

Reporting

The Bank reports large counterparty exposures to CBB and senior management on periodic basis. The Bank reports the exposures on a gross basis without any offset.

Early warning indicators

The Bank maintains a strong focus on identification of signs of deterioration in credit quality at an early stage in order to take remedial measures before the facility becomes substandard or doubtful.

2. CAPITAL STRUCTURE

2.1 Capital Base

The Bank's capital base comprises of Tier 1 capital which includes nominal share capital, share premium, statutory reserve, accumulated deficit, current year net loss, unrealised gross losses arising from fair valuing equity securities less the cost of treasury shares, plus Tier 2 capital which consists of part of the unrealised gains arising from fair valuing equities less the aggregate amounts that exceed the regulatory large exposures limit.

The issued and paid up share capital of the Bank was US$ 109,996 thousand at 31 December 2016 and 2015, comprising of 109,996 thousand shares of US$ 1 each.

The Bank's regulatory capital base of US$ 103.2 million as at 31 December 2016 (31 December 2015: US$ 122.3 million) comprised Tier 1 capital of US$ 103.2 million (31 December 2015: US$ 122.3 million) and Tier 2 capital of nil million (31 December 2015: nil) as disclosed in note xx of the annual consolidated financial statements.

There have been no changes to the capital structures during the year.

There are no restrictions in distributing profits by the subsidiaries of the Bank. However, such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital.

ADDITIONAL PUBLIC DISCLOSURES
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2. CAPITAL STRUCTURE (CONTINUED)

2.2 Capital Adequacy

The purpose of capital management is to ensure the efficient utilization of capital in relation to business requirements and growth, risk profile and shareholders' returns. But the primary concern is capital protection from loss.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may issue ordinary shares, buy back ordinary shares or adjust the amount of dividend payment to shareholders. No changes have been made in the objectives, policies and processes from the previous years.

As compared to the minimum capital adequacy ratio ("CAR") of 12.5% prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at 31 December 2016 was 25.42% (2015: 21.70%), being over 100% above the minimum ratio.

The ratio is derived from guidelines issued by CBB which are compatible with the "Basel III" Accord issued by the Basel Committee on Banking Supervision. The CAR measures total qualifying capital held by an institution in relation to its risk-weighted assets. In common with other banks incorporated in Bahrain, the Bank commenced the ongoing measurement of its capital adequacy under the "Basel III" rules from 1 January 2015.

2.3 Profile of Risk-weighted Assets and Capital Charge

The Bank has adopted the "Standardised" approach for credit risk and market risk and "Basic Indicator" approach for operational risk for regulatory reporting purposes. IIB's risk-weighted capital requirement for credit, market and operational risks as at 31 December 2016 are as follows:

2.4 Credit risk weighted assets

The descriptions of the counterparty classes along with the risk weights to be used to derive the risk weighted assets are:

Cash and balances with banks and due from financial institutions

Cash has a nil risk weighting. Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies but short term claims on locally incorporated banks (whether rated or unrated) are assigned a risk weighting of 20% where such claims have an original maturity of three months or less and are denominated and funded in either Bahraini Dinars or US Dollars. Claims on banks outside Bahrain with a credit rating of A+ to A- are assigned a 50% risk weighting.

Receivables

Receivables have a risk weighting of 100%. These include funding provided to an unrated entity on a corporate murabaha basis that is repayable within 12 months.

Investments including assets held for sale and investment in associate

Investments listed on a recognised stock exchange attract a risk weighting of 100%. Unlisted investments have a 150% risk weighting and holdings of real estate are assigned a risk weighting of 400%.

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2. CAPITAL STRUCTURE (CONTINUED)

Credit exposure and risk weighted assets considered for capital adequacy ratio calculations comprising of banking book exposures are as follows:

As at 31 December 2016	Gross credit exposure US$ '000	Credit risk weighted assets US$ '000
Claims on Sovereigns	**9,966**	**-**
Claims on banks - murabaha placements	**9,301**	**1,871**
Due from investee companies - murabaha	**1,938**	**1,938**
Equity investments - publicly held	**4,724**	**4,724**
Equity investments - privately held	**18,315**	**27,473**
Equity investments - with excess amount over 15%	**18,772**	**150,176**
Investments in unrated funds-unlisted	**15,487**	**23,231**
Holding of real estate	**41,591**	**157,959**
Other assets	**757**	**755**
	120,851	**368,127**

	Gross credit exposure US$ '000	Credit risk weighted assets US$ '000
Claims on Sovereigns	4,987	-
Claims on banks - murabaha placements	38,079	7,854
Due from investee companies - murabaha	1,938	1,938
Equity investments - publicly held	6,105	6,105
Equity investments - privately held	21,716	32,574
Equity investments - with excess amount over 15%	40,498	323,976
Investments in unrated funds-unlisted	18,340	27,510
Holding of real estate	48,138	96,276
Other assets	704	704
	180,505	496,937

The gross credit exposure is all funded exposure and is entirely funded by capital. The Bank holds no cash collateral or eligible guarantees to mitigate credit risk. Since the period end position is representative of the risk positions of the Bank during the year, average gross exposures are not disclosed separately.

The Bank holds all its investments with the expectation of capital gains. The realised gains net of losses arising from investment sales or liquidations or buy back of shares by investee companies during the year ended 31 December 2016 were US$ 0.91 million (2015: US$ 2.04 million). The total net unrealised losses recognised in equity in 2016 aggregated to US$ 2.10 million (2015: US$ 4.9 million).

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2. CAPITAL STRUCTURE (CONTINUED)

Risk concentrations of the maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the balance sheet components. There is no unfunded exposure and no significant use of master netting and collateral agreements.

	Gross credit exposure 31-Dec 2016 US$ '000	Average Gross credit exposure 31-Dec 2016 US$ '000
Credit risk items:		
Placements with financial institutions	**8,406**	17,296
Murabaha with corporates	**513**	1,304
Musharaka financing	**25,144**	25,144
Investments securities	**71,637**	85,509
Assets acquired for leasing	**68,614**	69,926
Assets held for sale	**20,421**	10,211
Other assets	**4,681**	6,726
Total Credit Risk Exposure	**199,416**	216,115

The above disclosure is considered to be reasonably representative of the level of credit risk of the Bank during the year, as there has been no significant fluctuation in the credit risk assets during the year ended 31 December 2015.

2.4.1 Distribution of the gross funded exposures

(a) Geographical distribution of the gross funded exposures

The following table summarises the geographical distribution of exposure broken down into significant areas by major types of credit exposure:

As at 31 December 2016	Placements with financial institutions US$ '000	Murabaha with corporates US$ '000	Invest-ments Securities US$ '000	Musharaka financing US$ '000	Assets acquired for leasing US$ '000	Other assets US$ '000
Geographical region:						
Bahrain	8,406	-	15,602	-	-	1,947
Europe	-	-	44,259	-	68,614	2,599
North America	-	513	-	25,144	-	93
Other GCC	-	-	31,864	-	-	7
Africa	-	-	-	-	-	-
Others	-	-	333	-	-	33
	8,406	513	92,058	25,144	68,614	4,679

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2. CAPITAL STRUCTURE (CONTINUED)

As at 31 December 2015	Placements with financial institutions US$ '000	Murabaha with corporates US$ '000	Investments Securities US$ '000	Musharaka financing US$ '000	Assets acquired for leasing US$ '000	Other assets US$ '000
Bahrain	32,025	-	16,415	-		2,744
Europe	-	1,424	27,257	-		2,111
North America	-	513	-	25,144		58
Other GCC countries	3,726	-	44,000	-		418
Africa	-	-	953	-	-	56
Asia	-	-	1,237	-	-	38
	35,751	1,937	89,862	25,144	72,113	5,425

2.4.1 Distribution of the gross funded exposures

The following table summarises the industrial distribution of funded exposure broken down by major types of credit exposures:

As at 31 December 2016	Placements with financial institutions US$ '000	Balances with bank US$ '000	Investments US$ '000	Musharaka financing US$ '000	Assets acquired for leasing US$ '000	Othe assets US$ '000
Industry sector:						
Real estate	**-**		**64,890**	**25,144**	**-**	**972**
Banking and finance	**8,406**	**2,562**	**10,299**	-	**-**	**208**
Manufacturing	**-**	**-**	**6,472**	-	**-**	**1**
Transportation	**-**	**-**	**-**	-	**68,614**	**1,094**
Others	**-**	**-**	**10,397**	-	**-**	**355**
	8,406	**2,562**	**92,058**	**25,144**	**68,614**	**2,630**

As at 31 December 2015	Placements with financial institutions US$ '000	Balances with bank US$ '000	Investments US$ '000	Musharaka financing US$ '000	Assets acquired for leasing US$ '000	Othe assets US$ '000
Industry sector:						
Real estate development	-	-	52,731	-	-	237
Real estate-income generating	-	1,937	8,489	25,144	-	-
Banking and finance	35,751	-	1,491	-	-	2,386
Manufacturing	-	-	11,845	-	-	46
Airline / Automotive	-	-	954	-	72,113	2,198
Others	-	-	14,352	-	-	558
	35,751	1,937	89,862	25,144	72,113	5,425

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base.

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2. CAPITAL STRUCTURE (CONTINUED)

The Bank's exposure in excess of 15% of the obligor limit to individual counterparties based on regulatory "total available capital" at 31 December 2016 is shown below:

	December 2016			December 2015	
	C.A.R Limit (15%) US$ '000	**On balance sheet exposure US$ '000**	**Capital deduction US$ '000**	C.A.R Limit (15%) US$ '000	On balance sheet exposure US$ '000
Counterparty A	**15,487**	**25,664**	**(10,177)**	18,340	25,659
Counterparty B	**15,487**	**23,630**	**(8,143)**	18,340	24,931
Counterparty C	**-**	**(18,320)**	**-**	18,340	24,062

Capital deduction is equally deducted from Tier 1 and Tier 2.

There were no off-balance sheet exposures (2015: nil).

2.4.2 Single counterparty exposures

As at 31 December 2016	**Neither past due nor impaired US$ '000**	**Past due but not impaired US$ '000**	**Past due and individually impaired US$ '000**
Balances with banks	**2,562**	**-**	**-**
Due from financial institutions	**8,406**	**-**	**-**
Receivables	**1,247**	**-**	**-**
Investments	**9,966**	**-**	**-**
Musharaka	**25,144**	**-**	**-**
Other assets	**1,156**	**-**	**(66)**
	48,481	**-**	**(66)**

As at 31 December 2015	Neither past due nor impaired US$ '000	Past due but not impaired US$ '000	Past due and individually impaired US$ '000
Balances with banks	3,652	-	-
Due from financial institutions	35,751	-	-
Receivables	757	-	-
Investments	4,987	-	-
Musharaka	25,144	-	-
Other assets	1,347	-	(42)
	71,638	-	(42)

Past due and individually impaired are overdues of more than 1 year but less than 3 years. Past due and individually impaired exposure pertains to Bank's real estate exposure in Europe.

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2. CAPITAL STRUCTURE (CONTINUED)

2.5 Market risk weighted assets

The Bank's capital charge in respect of market risk in accordance with the Standardized Approach is as follows:

	December 2016		December 2015	
	Risk weighted assets US$ '000	Period end capital requirement US$ '000	Risk weighted assets US$ '000	Period end capital requirement US$ '000
Foreign exchange risk	25,125	2,010	31,119	3,890

	December 2016 (USD '000)	Maximum (USD '000)
Market Risk - Standardised Approach		
Price Risk	-	-
Equity Position Risk	-	-
Foreign exchange risk	2,010	2,731
Total of market risk - standardised approach	2,010	2,731
Multiplier	12.5	12.5
Total Market Risk Weighted Exposures	25,125	34,138
Minimum capital requirement (12.5%)	3,141	4,267

Positions are monitored on a quarterly basis to ensure they are maintained within established limits. The Bank's exposure in foreign currencies consists of exposures from banking activities, as it does not have a trading book in foreign currencies.

	2016 Assets/ liabilities net US$ '000	2015 Assets/ liabilities net US$ '000
Euro	24,940	29,564
Pound Sterling	185	601
Others	-	954
Market risk weighted exposure	25,125	31,119

2.6 Operational risk

In accordance with the Basic Indicator approach methodology, operational risk and related capital requirements are as follows:

	Gross income		
	2013 US$ '000	2014 US$ '000	2015 US$ '000
Total gross income	11,141	4,537	-9,738

	2016 US$ '000	2015 US$ '000
Indicator of operational risk		
Average gross income multiply by number of years	7,839	18,925
Eligible portion for the purpose of calculation	15%	15%
Multiplier	12.5	12.5
Operational risk weighted exposure	14,698	35,484
Capital requirement (12.5%)	1,837	4,436

The operational risk has been calculated by the Bank by considering the total gross income of the years in which it has earned gross profits.

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3. RISK MANAGEMENT

The Board of Directors is charged with the overall responsibility for risk management. It approves and periodically reviews the risk policies and strategy of the Bank. It is assisted by the Executive Committee, Management Committee, Investment Committee and Audit & Corporate Governance Committee.

The Risk Management Committee has the overall responsibility for establishing the risk framework and strategy, principles, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Bank. It ensures that risks do not exceed the approved limits. The Risk Management Department also carries out internal capital adequacy assessments to determine the adequacy of overall capital in relation to the Bank's risk profile and formulates the strategy for maintaining the capital levels. The capital provides the Bank with a cushion to absorb losses without endangering client funds.

The various risks to which the Bank is exposed and the principal risk management techniques are summarized below. Further information on risk management is contained in Note xx to the annual consolidated financial statements.

3.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The principle business of the Bank is Investment Banking. The process of managing the credit risk starts at the origination of the investment activity and compliance with investment criteria, guidelines and policies. The Bank manages credit risk by setting limits for individual counterparties, countries, regions and industry sectors. Limits are authorized by the Board of Directors based on management's recommendations, monitored by the Risk Management Department and reviewed regularly by the Risk Management Committee. Details of maximum exposure to credit risk by balance sheet components, geographical region, industry sector and credit rating are contained in note (23a) to the annual consolidated financial statements in accordance with the requirements of International Financial Reporting Standard (IFRS) 7.

Information disclosed in the annual report in respect of geographical region, industry sector and credit rating is prepared in accordance with the requirement of Prudential Information Report for Islamic Banks as at 31 December 2016. The disclosures are considered to be reasonably representative of the position during 2014 as there has been no significant fluctuation in the level of credit risk assets.

3.1.1 Credit risk concentrations and thresholds

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base. Individual exposures are described at Capital Structure section 2.4.1.

3.1.2 Excessive risk concentration

Bank policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio.

3.1.3 Geographical distribution of exposures

The geographical distribution of exposures, impaired assets and the related impairment provisions are analyzed as follows:

	31 December 2016			31 December 2015		
	Gross funded credit exposure US$ '000	**Gross impaired exposures US$ '000**	**Provision against exposures US$ '000**	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Geographical region:						
Bahrain	**25,955**	**1,434**		51,184	2,984	518
Europe	**115,472**	**21,284**	**655**	102,905	7,057	2,432
North America	**25,750**	**-**		25,715	50	3
Other GCC countries	**31,871**	**32,983**	**3,349**	48,144	20,016	4,556
Africa	**-**	**-**		1,009	983	23
Asia	**366**	**333**		1,275	2,102	827
	199,414	**56,035**	**4,004**	230,232	33,192	8,359

The impaired security is reflected at fair value based on the relevant fair valuae as at 31 December 2016. The criteria used to allocate exposures to particular geographical areas is the country to which the funds were transferred.

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3. RISK MANAGEMENT (CONTINUED)

3.1.4 Industrial sector analysis of the exposures

The industrial sector analysis of exposures, impaired assets and the related impairment provisions is as follows:

	31 December 2016			31 December 2015		
	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Industry sector:						
Real estate-development	**91,006**	**39,618**	**4,004**	88,538	11,338	5,991
Banking and financial institutions	**21,475**	**541**	-	39,628	2,376	827
Manufacturing	**6,473**	**6,472**	-	11,891	8,910	518
Automotive / Airline	**69,708**	-	-	75,265	988	23
Others	**10,752**	**9,404**	-	14,910	9,580	1,000
	199,414	**56,035**	**4,004**	230,232	33,192	8,359

The Bank has no unfunded exposures as at 31 December 2016.

3.1.5 Large exposures

The Bank follows the CBB's guidelines with respect to definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

The following are the large exposures of US$ 1,000,000 and over as of 31 December 2016:

Banks	Large exposure (banks) US$ '000	% of exposure to equity	Non-banks	Large exposure (non-banks) US$ '000	% of exposure to equity
Bank A	9,308	9.02%	Counterparty A	25,664	24.87%
Bank B	1,124	1.09%	Counterparty B	23,630	22.90%
			Counterparty C	12,466	12.08%
			Counterparty D	10,188	9.87%
			Counterparty E	10,123	9.81%
			Counterparty F	8,930	8.65%
			Counterparty G	4,516	4.38%
			Counterparty H	4,202	4.07%
			Counterparty I	2,317	2.24%
			Counterparty J	1,845	1.79%

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3. RISK MANAGEMENT (CONTINUED)

3.1.6 Exposure by external credit rating

The Bank uses ratings issued by Standard & Poor's, Moody's, Capital Intelligence and Fitch to derive the risk weightings under the CBB's Basel III capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes. The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures:

	31 December 2016			31 December 2015		
	Gross credit exposure US$ '000	**Rated exposure US$ '000**	**Unrated exposure US$ '000**	Gross credit exposure US$ '000	Rated exposure US$ '000	Unrated exposure US$ '000
Cash and claims on banks	**10,970**	**1,651**	**9,319**	39,405	2,395	37,010
Equity portfolio	**96,781**	**9,966**	**86,815**	115,006	4,987	110,019
Other exposures	**70,152**	**-**	**70,152**	75,823	-	75,823
	177,903	**11,617**	**166,286**	230,234	7,382	222,852

Exposures to related parties:

	2016	2015
	Gross credit exposure US$ '000	Gross credit exposure US$ '000
Claims on associates	**4,179**	4,184
Claims on investee companies	**1,872**	3,505
	6,051	7,689

3.1.7 Intra-group transactions including exposures to related parties

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are on an arm's length basis and are identical to those applicable to transactions with all other parties. Exposures as at 31 December 2015 are as follows:

3.1.8 Impairment of assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Evidence of impairment may include indications that the investee company is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Impairment is determined as follows:

a) for assets carried at amortised cost, impairment is based on the present value of estimated future cash flows discounted at the original effective profit rate;

b) for assets carried at fair value, impairment is the difference between cost and fair value; and

c) for assets carried at cost, impairment is based on the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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3. RISK MANAGEMENT (CONTINUED)

3.1.9 Impairment losses on financial assets

On a quarterly basis, the Bank assesses whether any provision for impairment should be recorded in the statement of income. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ resulting in future changes in such provisions.

3.2 Liquidity Risk And Funding Management

Liquidity risk is the risk that the Group will be unable to meet its obligations associated with financial liabilities. The Assets & Liabilities Committee (ALCO) monitors future cash flows and liquidity required for working capital and investment acquisition. The Bank's investments generally have a long-term maturity and hence, as a matter of policy, the long-term investments are funded from IIB's own capital. The Bank maintains significant cash and cash equivalent balances and also has access to geographically diversified funding sources, although no deposit liabilities or long-term funding by external counterparties were booked during 2016. The ratio of liquid assets (defined as cash, balances with banks, due from financial institutions, sukuks and quoted investments) to total assets at 31 December 2016 is 12.87% (2015: 21.92%). Details of liquidity risk and funding management are contained in Note (23b) to the annual consolidated financial statements.

The table below shows an analysis of financial assets and liabilities as at 31 December 2016 analysed according to when they are expected to be recovered or settled.

	Within 1 month US$ '000	1-3 months US$ '000	3-6 months US$ '000	6-12 months US$ '000	1-5 years US$ '000	Above 5 years US$ '000	Total US$ '000
ASSETS							
Cash and claims on banks	10,970	-	-	-	-	-	10,970
Receivables	125	1,459	0	-	691	-	2,275
Investment in quoted equities	-	-	-	-	4,724	-	4,724
Investment in unquoted equities	-	-	-	-	72,336	-	72,336
Investment property	-	-	-	-	4,202	-	4,202
Assets acquired for leasing	-	-	-	-	-	68,614	68,614
Investment in Sukuk	-	-	4,979	-	-	4,987	9,966
Investment in associates	-	-	-	-	830	-	830
Musharaka financing	-	-	-	-	25,144	-	25,144
Other assets	44	52	27	40	11	181	355
Total assets	11,139	1,511	5,006	40	107,937	73,782	199,416
LIABILITIES							
Term finance	-	150	37	-	10,000	-	10,187
Wakala payable	575	1,151	1,726	3,452	27,619	26,236	60,760
Liabilities held for sale					14,487		14,487
Other liabilities	1,390	36	48	-	1,030	-	2,504
Total liabilities	1,966	1,336	1,811	3,452	53,137	26,236	87,938
Net gap	9,173	174	3,195	(3,412)	54,801	47,546	111,478

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3. RISK MANAGEMENT (CONTINUED)

The table below shows an analysis of financial assets and liabilities as at 31 December 2015 analysed according to when they are expected to be recovered or settled.

	Within 1 month US$ '000	1-3 months US$ '000	3-6 months US$ '000	6-12 months US$ '000	1-5 years US$ '000	Above 5 years US$ '000	Total US$ '000
ASSETS							
Cash and claims on banks	24,450	14,956	-	-	-	-	39,406
Receivables	-	1,395	22	50	715	-	2,182
Investment in quoted equities	-	-	-	-	6,105	-	6,105
Investment in unquoted equities	-	-	-	-	72,389	-	72,389
Investment property	-	-	-	-	5,547	-	5,547
Investment in Ijarah asset	-	-	-	-	-	72,113	72,113
Investment in sukuk	-	-	-	-	-	4,987	4,987
Investment in associates	-	-	-	-	835	-	835
Musharaka	-	-	-	-	25,144	-	25,144
Other assets	121	61	29	34	1,101	180	1,526
Total assets	24,571	16,412	51	84	111,836	77,280	230,234
LIABILITIES							
Term finance	575	1,151	1,726	3,452	27,619	29,944	64,468
Wakala payable	450	110	-	-	30,000	-	30,560
Other liabilities	2,544	697	17	-	-	-	3,258
Total liabilities	3,569	1,958	1,743	3,452	57,619	29,944	98,286
Net gap	21,002	14,454	(1,692)	(3,368)	54,217	47,336	131,948

3.3 Market Risk

Market risk is the risk to earnings resulting from adverse movements in foreign currency rates, profit rate yield curves and equity prices. The Bank has no significant concentration of market risk and does not have a significant trading portfolio of equities or foreign currencies. It is exposed to market risk from currency rate fluctuations on its foreign currency denominated assets and liabilities.

To enable effective monitoring and managing of exposures, all market risks associated with the Bank's investments are managed and monitored using basic sensitivity analyses reflecting such factors as volatility, liquidity and concentration. The investments in unquoted equities, comprising the Bank's retentions in its investment offerings and selective participations in private placements, are generally illiquid without a ready market to effect an exit.

Note (23c) to the annual consolidated financial statements details the Bank's exposure to equity price risk, foreign currency risk and profit rate risk.

3.4 Operational Risk

Operational Risk is the risk of direct or indirect loss resulting from breaches in internal controls, processing errors, inadequate information systems, fraud, or external events. Its impact can be in the form of a financial loss, loss of reputation or loss of competitive position. Operational risk is inherent in all business activities and can never be eliminated entirely but can only be mitigated or minimized. The Bank minimizes its exposure to such risk by ensuring that appropriate management control mechanisms, infrastructure, systems, internal controls and human resources are in place. IIB has developed an operational risk framework, reviewed by experienced external consultants, that provides for identification, measurement, monitoring and control of potential risk events. A number of processes are used throughout the Bank including risk and control self-assessments, key risk indicators (KRIs), event management, new product review / approval procedures and business continuity plans.

In addition, Internal Audit Department issues regular reports including an annual organization-wide risk assessment and the external auditors make recommendations on internal controls and processes. Business units are responsible for managing the operational risks relevant to their activities, supported by a disaster recovery program covering computer backup, data recovery and business continuity.

Head of Risk Management maintains a risk register for capturing loss event data and events. On a quarterly basis matters logged are discussed with the departmental heads. During the current year no significant loss events occurred.

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3. RISK MANAGEMENT (CONTINUED)

3.5 Legal Risk

Legal Risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. It has professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal and Compliance Departments or external legal counsel. The Bank fully complied with all applicable laws and regulations during the year ended 31 December 2016.

4. INVESTMENT IN SUBSIDIARIES

The Bank has the following subsidiaries, namely:

Name of the subsidiary	Located in	Currency		31 December 2016	31 December 2015
Istethmary Al Fareeda Company B.S.C. (c)	Kingdom of Bahrain	SAR	Net assets	**44,479,042**	71,732,442
		SAR	Net (loss) profit	**(27,129,084)**	82,762
Istethmary Sarajevo City Centre	Cayman Islands	EURO	Net assets	**22,360,000**	21,936,000
		EURO	Net profit	**431,000**	262,000
Bahrain Bunny Shares and Securities W.L.L.	Kingdom of Bahrain	SAR	Net assets	**35,288,729**	28,960,435
		SAR	Net profit (loss)	**6,328,295**	(29,817,647)
Multifamily Residential Ltd-I ("MR-I")	Cayman Islands	USD	Net assets	**8,752,402**	8,770,294
		USD	Net loss	**(17,892)**	(28,130)
Multifamily Residential Ltd-II ("MR-II")	Cayman Islands	USD	Net assets	**16,293,703**	16,314,410
		USD	Net loss	**(20,707)**	(28,130)
IIB Aircraft Lease SPC Limited	Cayman Islands	USD	Net assets	**10,094,308**	10,423,983
		USD	Net profit	**995,831**	882,044
IIB France Investments	Kingdom of Bahrain	EUR	Net assets	**2,272,875**	-
		EUR	Net loss	**(35,412)**	-
IIB German Properties Co.	Cayman Islands	EUR	Net assets	**913,686**	-
		EUR	Net loss	**(5,031)**	-

The Bank is not exposed to currency risk in the case of investment in Istethmary Al Fareeda Company B.S.C. ©, Bahrain Bunny Shares and Securities W.L.L, MR-I, MR-II, IIB Aircraft Lease I Limited and IIB Aircraft Lease 2 Limited as these are denominated in SAR and USD.

The effect of 10% change in foreign exchange rate on the Bank's statement of equity in respect of Istethmary Sarajevo City Centre amounts to US$ 2,236 thousand (2015: US$ 2,194 thousand) and on the Bank's statement of income amounts to US$ 43 thousand (2015: US$ 26 thousand), which has also been included in sensitivity analysis shown in note (23c) to the annual consolidated financial statements. During the year IIB France Investments and IIB German Properties became subsidiaries of the bank. The effect of 10% change in foreign exchange rate on the Bank's statement of equity in respect of these new subsidiaries amounts to US$ 227 thousand and US$ 91 thousand respectively and on the Bank's statement of income amounts to US$ 4 thousand and 1 thousand respectively.

The Bank does not make use of any foreign currency hedges to hedge against the movement in foreign exchange rates of investment in foreign subsidiaries.