



AL SALAM BANK
البحرين Bahrain

REACHING THE UNREACHABLE
Annual Report 2016



سنوات
من التميز
YEARS OF
EXCELLENCE



With an infinite ambition, celebrating 10 years of excellence and innovation in the Islamic banking industry, we set the pace for the future that will lead to global presence and delivering dynamic Shari'a-compliant products and financial solutions tailored to meet our increasingly diverse clientele.

We, at Al Salam Bank-Bahrain, transcend the boundaries of possibilities and build new paradigms on the journey towards success.



**His Royal Highness
Prince Khalifa bin
Salman Al Khalifa**

The Prime Minister of
the Kingdom of Bahrain



**His Majesty King Hamad
bin Isa Al Khalifa**

The King of the Kingdom
of Bahrain



**His Royal Highness
Prince Salman bin
Hamad Al Khalifa**

The Crown Prince,
Deputy Supreme
Commander and First
Deputy Prime Minister of
the Kingdom of Bahrain

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DYNAMIC DIVERSIFIED DIFFERENTIATED

OUR VISION

To become a regional force in the Islamic financial services industry by providing differentiated Shari'a compliant products to focused segments.

OUR MISSION

- Become a “one-stop-shop” for Islamic financial services.
- Create a strong onshore presence in select countries.
- Develop a premier brand image as an Islamic financial shaper.
- Achieve high returns for stakeholders commensurate with the risks undertaken.

CORPORATE OVERVIEW

ASBB is an Islamic bank head-quartered in the Kingdom of Bahrain and is licensed and regulated by the Central Bank of Bahrain.

Al Salam Bank-Bahrain (ASBB) was established on 19 January 2006 in the Kingdom of Bahrain with paid-up capital of BD 120 million (USD 318 million) and was the largest Initial Public Offering (IPO) in the Kingdom's history with subscriptions reaching over BD 2.7 billion (USD 7 billion). Currently, ASBB total owners' equity is BD 325 million (USD 862 million). The Bank commenced commercial operations on 17 April 2006. ASBB was listed in Bahrain Bourse on 27 April 2006 and subsequently on Dubai Financial Market (DFM) on 26 March 2008.

Following a resolution of ASBB's Extraordinary General Assembly meeting held on 4 May 2009, ASBB completed its merger with the Bahraini Saudi Bank (BSB) on 22nd of December 2011. On the 2nd of February 2014, Al Salam Bank-Bahrain and BMI Bank B.S.C (c) (BMI) confirmed the conclusion of a business combinations between the two institutions after obtaining the approval of their shareholders at their respective extraordinary general assembly meetings by way of exchanging 11 ASBB shares for each BMI Bank share wherein ASBB acquired 58,533,357 BMI Bank shares of BD1 each and issued 643,866,927 ASBB shares of 100 fils each. As of the 30th of March 2014, both Banks updated their respective CRs to give effect to the share swap and consequently BMI Bank became a wholly owned subsidiary of ASBB.

ASBB offers its customers a comprehensive range of innovative and unique Shari'a-compliant financial products and services through its extended strong network of branches and ATMs utilizing the state-of-art technologies to meet various banking requirements. In addition to its Retail Banking services, the Bank also offers Corporate Banking, Private Banking, Investment as well as Treasury Services.

The Bank's high-calibre management team comprises highly qualified and internationally experienced professionals with proven expertise in key areas of banking, finance and related fields.

Key factors that contribute to the Bank's distinct market differentiation include:

- Strong paid-up capital base;
- Pre-eminent founding shareholders;
- High-calibre management team;
- State-of-the-art IT infrastructure;
- Innovative, tailor-made Shari'a-compliant product solutions;
- Universal business model covering deposits, financing and investment products and services;

ASBB is adopting internationally recognized standards and best practices in areas such as corporate governance, compliance and risk management, operating with the highest levels of integrity, transparency and trust.

ANNUAL HIGHLIGHTS

Total Operating Income (million)

2012	BD24 (USD 64)
2013	BD26 (USD 69)
2014	BD46 (USD 122)
2015	BD59 (USD 156)
2016	BD63 (USD 167)

Net Profit (million)

2012	BD10 (USD 27)
2013	BD12 (USD 33)
2014	BD16 (USD 42)
2015	BD11 (USD 28)
2016	BD16 (USD 43)

Total Assets (million)

2012	BD942 (USD 2,499)
2013	BD1,088 (USD 2,887)
2014	BD1,955 (USD 5,186)
2015	BD1,657 (USD 4,395)
2016	BD1,681 (USD 4,460)

Net Equity (million)

2012	BD208 (USD 552)
2013	BD246 (USD 653)
2014	BD329 (USD 872)
2015	BD320 (USD 849)
2016	BD325 (USD 862)

Earnings per share (fils)

2012	7
2013	8
2014	8
2015	6
2016	8

Cost to Income Ratio

2012	48%
2013	44%
2014	57%
2015	45%
2016	41%



RIISING TO THE OCCASION

Largest IPO shares issued with subscriptions in the history of the Kingdom reaching over BD 2.7 billion (USD 7 billion) and with paid-up capital of BD 120 million (USD 318 million).

BOARD OF DIRECTORS

H.H. Shaikha Hessa bint Khalifa bin Hamad Al Khalifa Chairperson

Chairperson of the Remuneration, Nomination and Corporate Governance Committee

Independent and non-executive

Director since: 18 April 2009

Term started: 24 February 2015

Experience: more than 18 years



H.H. Shaikha Hessa Al Khalifa gained her Bachelor's degree in Management (1998), and her Master degree in Social Policy and Planning (2002) both from the London School of Economics and Political Science. Gained a MSc Development Finance 2010 from University of London. She joined the Supreme Council for Women in 2001 as a member of the Social Committee. Since 2004 she has been a Permanent Member of the Council's Board. In 2005, she founded "INJAZ Bahrain" which is an international organization to inspire and prepare young Bahrainis to succeed in a global economy and is presently its Executive Director.

With her experience and active role in enterprise education and developing skills of young women, she has been invited as speaker and panelist at various occasions including the UN, and the World Economic Forum.

H. E. Shaikh Khalid bin Mustahail Al Mashani
Vice Chairman

Independent and non-executive

Director since: 5 May 2014

Term started: 24 February 2015

Experience: more than 22 years



H.E. Shaikh Khalid bin Mustahail Al Mashani holds a BSc. in Economics and a Master's Degree in International Boundary Studies from the School of Oriental and African Studies (SOAS), University of London. Shaikh Khalid is the Chairman of the Board of Directors of Bank Muscat S.A.O.G.; Director of Al Omaniya Financial Services Company and Chairman of Dhofar International Development & Investment Holding Company S.A.O.G.

Mr. Hussein Mohammed Al Meeza
Director

Chairman of the Executive Committee

Independent and non-executive

Director since: 20 March 2012

Term started: 24 February 2015

Experience: more than 42 years



Mr. Hussein Mohammed Al Meeza is considered one of the renowned personalities in the Islamic banking sectors and Islamic finance and insurance. Mr. Al Meeza's outstanding career success was crowned in December 2006 when the International Conference of Islamic Bankers chose him as the 2006 Best Islamic Banking Personality. Having graduated from the Beirut Arab University in 1975, Mr. Al Meeza started his professional career at the Dubai Islamic Bank (DIB) where he spent 27 years during which he played a pioneering role in enhancing and developing the bank's services. His landmark achievement was the establishment of the Al Salam Banks in Sudan, Bahrain and Algeria. Mr. Al Meeza is currently the Board Member and Chairman of the Executive Committee of Al Salam Bank-Bahrain, Chairman of Al Salam Bank-Seychelles, Chairman of Top Enterprises L.L.C., Chairman of Lycée Fracais Jean Mermoz L.L.C., Vice Chairman and Chairman of the Executive Committee of Al Salam Bank- Algeria. He was a founder member of Emaar properties, Amlak finance, Emaar Industries & Investments, Emaar Financial services, Dubai Islamic Insurance & Reinsurance Company (AMAN). Mr. Al Meeza occupied the positions of the CEO and Managing Director of Dubai Islamic Insurance and Reinsurance Company (AMAN), Vice Chairman and Chairman of the Executive Committee of Al Salam Bank-Sudan, Chairman of LMC Bahrain, Chairman of the Executive Committee of Islamic Trading company in Bahrain, Board member and Chairman of the Executive Committee in Amlak Finance – Dubai and Chairman of Emaar Financial Services Dubai, Vice Chairman of Emirates Cooperative Society – Dubai. Board member of the General Council of Islamic Banks and Financial Institutions, Chairman of the founding committee of Islamic Insurance and Re-Insurance Companies. He was also a Board Member of Emirates Society for Insurance. Mr. Al Meeza holds an MBA degree from La Jolla University, USA.

Mr. Salman Saleh Al Mahmeed**Director***Chairman of the Audit and Risk Committee**Independent and non-executive**Director since: 15 February 2010**Term started: 24 February 2015**Experience: more than 32 years*

Mr. Salman Al Mahmeed is the Deputy Chief Executive Officer of Bahrain Airport Services, the Deputy Chairman of Dar Albilad, the Managing Director and Owner's Representative of Global Hotels, Global Express and Movenpick Hotel in Bahrain. He was a Board Member of the Bahraini Saudi Bank as well as being a member of its Investment, Executive and Strategic Options Committees. He was also the Investment Director of Magna Holdings. Mr. Al Mahmeed holds an MBA in Business Administration, Master in Hotel Management and Management BSc. Degree and he is currently a Board member of Al Salam Bank and Chairman of the Audit Committee.

Mr. Essam bin Abdulkadir Al Muhaidib**Director***Independent and non-executive**Director since: 17 April 2006**Term started: 24 February 2015**Experience: more than 32 years*

Mr. Essam A. Al Muhaidib is the Board Member and Group CEO of Al Muhaidib Group. In addition, he also sits in the Board of Directors of multiple FMCG, Banking, Financial, Real Estate, Industrial and Contracting companies. Savola Group, ACWA Holding, Nestle Waters, Bawan, Abyat, Al Salam Bank, Blominvest KSA, Rafal Real Estate are few of them. He is also the Chairman of Panda Retail Company and Herfy Foods Services Company. He is a Board Member of Economic Cities Authority Saudi Arabia. He is the Chairman of National Housing Company (NHC, KSA) and King Fahad Specialist Hospital Dammam Board. He is a Board Member of various charity, benevolence and educational institutions like Educational Services Company of Prince Mohamed Bin Fahad University, King Fahad University for Petroleum and Minerals Endowment Fund, Saudi Food Bank, Disabled Society, Benevolence Society (Al Bir Society). He holds a Bachelor of Science in Statistics from King Saud University, Riyadh (1982).

Mr. Sulaiman bin Mohamed Al Yahyai

Director

Independent and non-executive

Director since: 5 May 2014

Term started: 24 February 2015

Experience: more than 22 years



Mr. Sulaiman bin Mohamed Al Yahyai is the Deputy Chairman of the Board of Directors of Bank Muscat since June 2011, Chairman of the Board Risk Committee and a member of the Board's Nomination and Compensation Committee. Mr. Al Yahyai holds a certificate in Assets Management-Lausanne University, Switzerland (2002), MBA – Institute of Financial Management – University of Wales, UK (2000), and a certificate in Financial Crisis – Harvard University, USA (1999). Mr. Al Yahyai is an Investment Advisor at the Royal Court Affairs, a Chairman – Oman Chlorine Co. "SAOG", a Director – Al Madina Real Estate Co. "SAOC", a Director – Falcon Insurance "SAOC", Chairman of Oman Fixed Income Fund, Chairman of Integrated Tourism Projects Fund, Chairman of Telecom Oman, Chairman of the National Bank of Oman GCC Fund, Chairman of Gulf Chlorine "W.L.L" (State of Qatar), a Director of Union Chlorine "L.L.C" (United Arab Emirates) and a Director in Al Salam Bank (Kingdom of Bahrain).

Mr. Hisham Saleh Al Saie

Director

Independent and non-executive

Director since: 5 May 2014

Term started: 24 February 2015

Experience: more than 22 years



Mr. Hisham Al Saie is a Bahraini national with extensive experience in the Investment Management, Corporate Finance Advisory and Investment banking. Hisham holds an MBA from London Business School and a Bachelor degree in Accounting from the University of Texas and has attended a number of executive education courses at INSEAD and other reputable institutions.

Prior to his current responsibilities in Overseas Investment Company S.P.C., Mr. Al Saie was Head of Corporate Finance at SICO Investment Bank, where he was responsible for structuring key local and regional equity and debt capital market transactions. He also held previous positions at BDO Jawad Habib, PriceWaterhouse Coopers and Arthur Andersen.

Mr. Al-Saie is a member of the Remuneration, Nomination and Corporate Governance Committee of Al Salam Bank Bahrain. He additionally occupies a number of directorship roles mainly in the following institutions:

- Nass Corporation B.S.C.
- Diyyar Al-Muharraq B.S.C. (c)
- Bahrain Bay Development B.S.C. (c)
- Investcorp Bank B.S.C.
- Al Khalij Commercial Bank (al khaliji) Q.S.C.
- Global Banking Corporation B.S.C. (c)
- Binaa Al Bahrain B.S.C. (c)
- LAMA Real Estate W.L.L.

Mr. Mohamed Shukri Ghanem
Director

Independent and non-executive

Term started: 24 February 2015

Experience: more than 17 years



Mr. Mohamed Ghanem brings over 17 years of extensive experience in the regional financing market and in global energy issues including business development, project financing as well as the origination of advisory assignments relating to oil, oil field, natural gas and power generation segments. Mr. Ghanem is the Chief Executive Officer and Board Member of First Energy Bank in Bahrain, prior to joining First Energy Bank, Mr. Ghanem worked at Arab Banking Corporation (BSC) ("ABC") and GED Handles G.m.b.H., Vienna. Mr. Ghanem is a board member of the following entities: Chairman of MENAdrill Investment Company; Chairman of ADCAN Pharma LLC – UAE; Chairman of Medisal Pharmaceuticals Industry LLC – UAE; Vice Chairman of Alizz Islamic Bank – Oman, and Chairman of the Executive Committee of the Bank; Board member of Al Salam Bank – Bahrain, and member of Executive Committee of First Energy Bank. Mr. Ghanem holds a Bachelor of Arts in Business from Webster University (School of Business and Technology) in Vienna as well as an MBA from Glamorgan University.

Mr. Khalid Salem Al-Halyan
Director

Independent and non-executive

Term started: 24 February 2015

Experience: more than 32 years



Mr. Khalid Salem Al-Halyan has more than 30 years senior level experience in several industries and is currently the group Chief Audit Executive at Dubai Aviation City Corporation (DACC). He started his career at the UAE Central Bank and moved to the Department of Economic Development (DED) in Dubai before joining the aviation industry in 1996; initially to establish the new Dubai Airport Free Zone (DAFZA) and head up the Finance Department, before moving on to establish the Group Internal Audit & Risk Assessment (GIARA) function at DACC. He has been involved in establishing DED, Emaar Properties, the UAE Internal Audit Association, the UAE Golf Association and worked on restructuring projects for DUBAL, Dubai World Trade Centre, Dubai Civil Aviation, UAE Central Bank Banking Supervision, and realized the construction of a new facility for the Al Noor Special Needs Centre in Dubai. Mr. Al-Halyan currently serves as Vice President of the UAE Internal Audit Association (affiliated to the Institute of Internal Auditors (IIA), USA), Chairman of Al Noor Special Needs Centre in Dubai and Mr. Al-Halyan is also the Advisor to Amlak Real Estate and Chairman of Emaar South, Dubai. He holds an MBA degree from Bradford University in the UK and BBA from UAE University, Al Ain.

Mr. Yousif Abdulla Taqi
Director and Group Chief Executive Officer

Executive

Director since: 05 May 2008

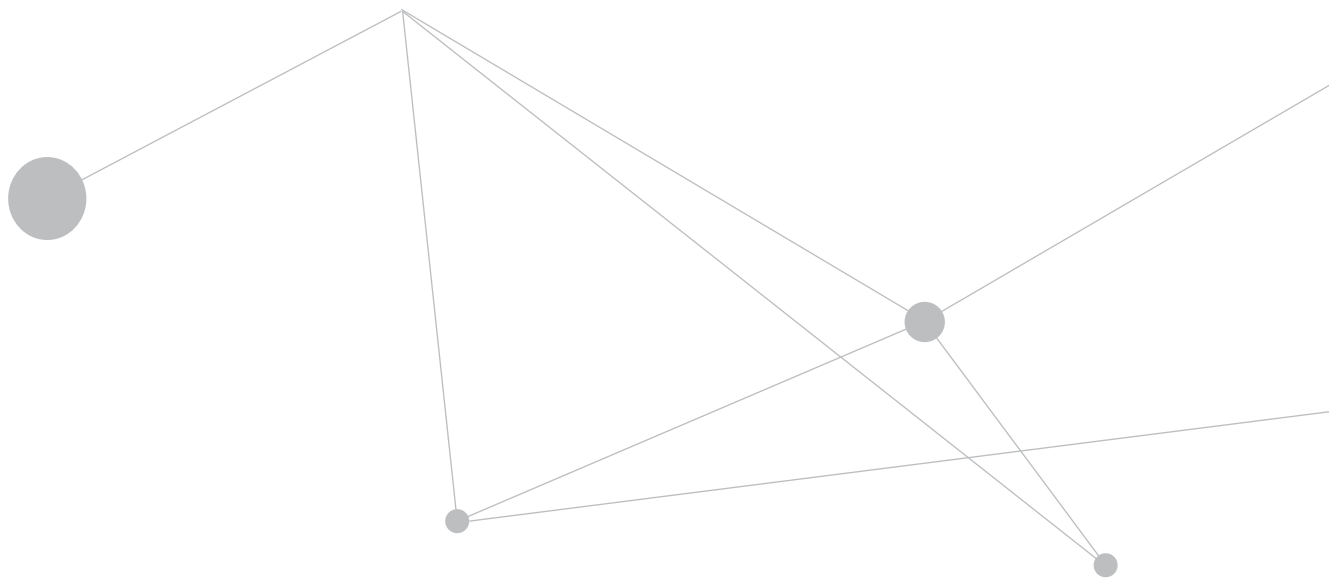
Term started: 24 February 2015

Experience: more than 30 years



A Certified Public Accountant (CPA), Mr. Yousif Abdulla Taqi has been active in the banking and financial service industry since 1983. Mr. Taqi is a veteran banker with more than 30 years of experience in leading positions for a number of institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain, he was Deputy General Manager of Kuwait Finance House (Bahrain), where he was responsible for establishing Kuwait Finance House Malaysia. Prior to this, Mr. Taqi worked with Ernst & Young, during which time he provided professional services for many regional and international financial institutions. During his career with Ernst & Young, he was promoted as Partner, responsible for providing auditing and consultancy services to the Islamic financial firms.

Mr. Taqi is the Director and Group Chief Executive Officer of Al Salam Bank-Bahrain. He is also the Chairman of Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c), affiliates of Al Salam Bank-Bahrain, Board member of the Housing Bank (Bahrain), Aluminium Bahrain (ALBA), and the Deputy Chairman of King Faisal Corniche Development Company.





DYNAMIC TRANSFORMATION

Converting the two acquired Banks - Bahraini Saudi Bank & BMI Bank - from Conventional Banking to Shari'a-compliant Banking in a record time to strengthen the growth of Islamic Banking in the Kingdom of Bahrain.

FATWA & SHARI'A SUPERVISORY BOARD

Dr. Hussein Hamid Hassan Chairman

Dr. Hussein Hamid Hassan holds a PhD from the Faculty of Shari'a, Al Azhar University, Cairo, Egypt; and a Master's in Comparative Jurisprudence and Diploma in Comparative Law (both of which are the equivalent of a PhD) from the International Institute of Comparative Law, University of New York, USA. He also holds a Masters in Comparative Juries, and Diplomas in Shari'a and Private Law, from the University of Cairo; and an LLB in Shari'a from Al Azhar University.

He is the Chairman and member of the Shari'a Supervisory Board in many of the Islamic Financial Institutions. In addition, Dr. Hassan is Chairman of the Assembly of Muslim Jurists, Washington, USA; a member of the European Islamic Board for Research & Consultation, Dublin, Ireland; and an Expert at the Union of Islamic Banks, Jeddah, Kingdom of Saudi Arabia.



Dr. Ali Mohuddin Al'Qurra Daghi Member

Dr. Ali Daghi holds a PhD in Shari'a and Law, and a Master's in Shari'a and Comparative Fiqh, from Al Azhar University, Cairo, Egypt. He also holds a BSc. in Islamic Shari'a from Baghdad University, Iraq; a certificate of traditional Islamic Studies under the guidance of eminent scholars in Iraq; and is a graduate of the Islamic Institute in Iraq. He is currently Professor of Jurisprudence in the faculty of Shari'a law and Islamic Studies at the University of Qatar. He sits on the

Boards of Shari'a Supervisory Boards for several banks and financial institutions. Dr. Al'Qurra Daghi is also a member of the Islamic Fiqh Academy, the Organisation of Islamic Conference, the European Muslim Council for Efta and Researches, the International Union of Muslim Scholars, and the Academic Advisory Committee of the Islamic Studies Centre, Oxford University, UK. He also has published several research papers tackling various types of Islamic Finance, Islamic Fiqh, Zakah and Islamic Economy.



Shaikh Adnan Abdulla Al Qattan**Member**

Shaikh Adnan Al Qattan holds Master's degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Shari'a Supreme Court, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court - Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al-Fatih Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.

**Dr. Mohamed Abdulhakim Zoair****Member**

Dr. Mohamed Zoair holds PhD in Islamic Economy; Master's degree in Islamic Shari'a (Economy); Bachelor's degree in Management Sciences; and a Higher Diploma in Islamic Studies. He is Member of the Fatwa Board in a number of Islamic financial institutions and has 18 years of experience with Egypt Central Bank. Dr. Zoair was also the Head of Shari'a compliance in Dubai Islamic Bank.

**Dr. Mohammed Burhan Arbouna****Member & Secretary to the Board
Group Head of Shari'a Compliance**

Dr. Mohammed Burhan Arbouna holds a PhD in laws with specialization in Islamic banking and finance from International Islamic University Malaysia, and Master's in Comparative Laws. He also holds BA degree in Shari'a and Higher Diploma in Education from Islamic University, Medina. He is an expert in Islamic banking and finance since 1997. Before joining Al Salam Bank- Bahrain, Dr. Arbouna was the Shari'a Head and Shari'a Board member in the Seera Investment Bank B.S.C Bahrain. Prior to that, he worked as the Head of Shari'a department in the Kuwait Finance House-Bahrain. Also, Dr. Arbouna worked as Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – Bahrain. Dr. Arbouna lectures on Islamic banking and finance and gives consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna is a member of Islamic Money Market Framework (IMMF) steering committee initiated by Central Bank of Bahrain for management of liquidity among Islamic banks.



EXECUTIVE MANAGEMENT TEAM

Mr. Yousif Abdulla Taqi
Director and Group Chief Executive Officer

Experience: more than 30 years

A Certified Public Accountant (CPA), Mr. Yousif Abdulla Taqi has been active in the banking and financial service industry since 1983. Mr. Taqi is a veteran banker with more than 30 years of experience in leading positions for a number of institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain, he was Deputy General Manager of Kuwait Finance House (Bahrain), where he was responsible for establishing Kuwait Finance House Malaysia. Prior to this, Mr. Taqi worked with Ernst & Young, during which time he provided professional services for many regional and international financial institutions. During his career with Ernst & Young, he was promoted as Partner, responsible for providing auditing and consultancy services to the Islamic financial firms. Mr. Taqi is the Director and Group Chief Executive Officer of Al Salam Bank-Bahrain. He is also the Chairman of Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c), affiliates of Al Salam Bank-Bahrain, Board member of the Housing Bank (Bahrain), Aluminium Bahrain (ALBA), and the Deputy Chairman of King Faisal Corniche Development Company.



Mr. Anwar Mohammed Murad
Deputy Group CEO - Banking

Experience: more than 23 years

Mr. Anwar Murad has over 23 years of experience in the areas of Private Banking, Treasury, Market Risk Management and Retail Banking. Mr. Murad currently holds the position of Deputy Group CEO of Banking and prior to this, he had served as Executive Vice President - Head of Private Banking at Al Salam Bank-Bahrain since May 2006. His responsibilities were to establish the Private Banking and Retail Banking divisions for Al Salam Bank. In addition to the standard banking products, he managed to structure and launch many Shari'a-compliant products. Prior to joining Al Salam Bank, he was the Head of Private Banking at BMI Bank, Bahrain. Earlier, Mr. Murad was the Regional Market Risk Manager for the MENA region at ABN AMRO Bank and also headed the Treasury Operations in Bahrain. From 1994 to 1998 he had various positions with Citibank in Bahrain as Authorized Signer, Money Market and Debt Derivatives followed by Assistant Manager, Global Consumer Banking. Mr. Murad has extensive knowledge and experience in Treasury and Investment products starting from Money Market, Foreign Exchange, Debt Derivatives and Structured Products.



Mr. Abdulkarim Turki
Acting Chief Operating Officer

Experience: more than 36 years

Mr. Abdulkarim Turki is a well-rounded banker with more than 36 years' experience in Treasury, Operations, Audit, Internal Controls and Risk Management. He joined Al Salam Bank-Bahrain in 2006 as Senior Vice President, Head of operations. He was heavily involved in the incorporation and structuring of the Bank and the Operation Department. He was appointed as a key member in the Selection and Implementation Committee of the Bank's core banking system in addition to being a member in other Bank's committees such as Basel II, Bank Asset Liability Committee (ALCO) and the Public Relations Committee (PRC). Prior to joining the Bank, he held the position of Vice President - Head of Treasury Support Operations at Citibank Bahrain, where he gained his experience through the occupation of several managerial positions heading different departments and units. He was also involved in the launch of Citi Islamic Investment Banking as he was responsible for formulating all operational procedures, devising the chart of accounts and products accounting. Mr. Turki holds an MBA in Investment & Finance from University of Hull, UK.



Dr. Mohammed Burhan Arbouna
Group Head of Shari'a Compliance

Experience: more than 17 years

Dr. Mohammed Burhan Arbouna holds a PhD in laws with specialization in Islamic banking and finance from International Islamic University Malaysia, and Masters in Comparative Laws. He also holds BA degree in Shari'a and Higher Diploma in Education from Islamic University, Medina. He is an expert in Islamic banking and finance since 1997. Before joining Al Salam Bank- Bahrain, Dr. Arbouna was the Shari'a Head and Shari'a Board member in the Seera Investment Bank B.S.C Bahrain. Prior to that, he worked as the Head of Shari'a department in the Kuwait Finance House-Bahrain. Also, Dr. Arbouna worked as Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – Bahrain. Dr. Arbouna lectures on Islamic banking and finance and gives consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna is a member of Islamic Money Market Framework (IMMF) steering committee initiated by Central Bank of Bahrain for management of liquidity among Islamic banks.



Mr. Isa Hasan Maseeh
Group Chief Risk Officer

Experience: more than 18 years

Mr. Isa Maseeh is a risk professional with more than 18 years of experience in the financial sector. His exposure spans across commercial and investment banking sectors in Bahrain. Mr. Maseeh joined ASBB as Group Chief Risk Officer in 2015 with the primary objective of consolidating the risk activities across the Bank. Prior to joining ASBB, he was the Chief Risk Officer at BMI Bank. Earlier, Mr. Maseeh held various senior risk management positions with Islamic and conventional banks including Gulf Finance House and United Gulf Bank. Having had the opportunity to work across different segments of the financial industry and be actively involved in the setup of financial institutions, Mr. Maseeh has managed to develop a well-rounded knowledge and experience base in banking. Mr. Maseeh holds an MBA (Hons) from DePaul University, USA and a bachelor's degree in finance from Concordia University, Canada. He also holds the Chartered Financial Analyst (CFA) and Professional Risk Manager (PRM) designations.



Mr. Hussain Abdulhaq
Head of Treasury and Capital Markets

Experience: more than 15 years

Mr. Hussain Abdulhaq is an experienced Treasurer in the area of Islamic banking and Capital markets. He spent most of his 15 years career as treasury specialist where he was involved in different areas, like Islamic liquidity management, Islamic capital markets instruments, development of Islamic compliant investment products and hedging instruments. He joined Al Salam Bank in 2007 as a senior member in the treasury team and he was involved in establishing the different functions and business lines of the unit as well as in charge for the ALCO function. Hussain lead the treasury integration process of Al Salam Bank and Bahrain Saudi Bank in 2010 and handling the same responsibility with BMI Bank. Prior joining Al Salam Bank, He worked for Kuwait Finance House (Bahrain), a leading Islamic Financial institution in the region, for more than 5 years where he was in charge of the dealing room activities. Mr. Abdulhaq holds an MBA degree in Banking & Finance with a first honor from University of Bahrain and he is also a Chartered Financial Analyst (CFA).



Mr. Essa Abdulla Bohijji
Group Chief Auditor

Experience: more than 16 years

Mr. Essa Bohijji has more than 16 years of consulting and industry experience in the financial services, commercial entities, governmental bodies, and internal audit. Prior to joining Al Salam Bank Bahrain, Mr. Bohijji was the Chief Auditor and Board Secretary of an Islamic Investment Bank in Bahrain. Mr. Bohijji had also spent seven years with Ernst & Young where he worked in the Audit and Assurance Services Group before shifting to the Business Advisory Services that was responsible for Internal Audit and Risk Management assignments and left as a Senior Manager. Mr. Bohijji currently serves as a Board member of BMI Bank, a Board and Audit Committee member of Al Salam Bank Algeria, an interim Board member in BMIO Bank in Seychelles, and a non-executive Audit Committee member in Manara Developments B.S.C. (c). In addition to that, Mr. Bohijji served from year 2009 as a Board and Audit Committee Member for Bahraini Saudi Bank prior to the full merger with Al Salam Bank Bahrain in late 2012. Mr. Bohijji is a qualified Certified Public Accountant, licensed from the state of New Hampshire and is a member of the American Institute of Certified Public Accountants. He also holds a B.Sc. in Accounting from University of Bahrain.



Mrs. Muna Al Balooshi
Group Head of Human Resources and Administration

Experience: more than 18 years

Mrs. Muna Al Balooshi joined Al Salam Bank-Bahrain in 2006 as Group Head of Human Resources. She had a major role in the Bank's two acquisitions of the Bahraini Saudi Bank and BMI Bank in regard to the merger of the Bank's resources with those two banks. Mrs. Al Balooshi has an excellent knowledge of HR policies and Labor Law regulations due to her long experience as she was the Head of Human Resources at the Court of HRH the Crown Prince from 2001 till 2006 and prior to that she was working in HR department at KPMG. She has full responsibility of the Human Resources division and forming the division strategy as well as assisting directors in top confidential tasks. Mrs. Muna holds an MBA degree from De Paul University – Chicago and she's a CIPD Associate.



Mr. Qassim Taqawi
Group Head of Legal

Experience: more than 13 years

Mr. Qassim Taqawi is a veteran legal counsel with more than 13 years of experience in the field of Investment Banking, Islamic Banking, Retail Banking, Finance, Company Law, Labor Law, Real Estate and Construction. During his career, Mr. Taqawi has handled and attained regional exposure in legal matters covering the GCC, USA, Europe and MENA region. Following the merger with Al Salam Bank-Bahrain, Mr. Taqawi was appointed in his current position at Al Salam Bank as the Group Head of Legal handling the group's legal affairs. Since 2003, Mr. Taqawi has held a number of senior executive positions in the region with various Banking & Financial Institutions. In addition to his current executive responsibilities, Mr. Taqawi serves as a member in management committees including Investment Committee and Remedial Committee. Mr. Taqawi holds a Bachelor degree (LLB) in law and is a registered lawyer with the Ministry of Justice & Islamic Affairs in the Kingdom of Bahrain.



Mr. Talal Abdul Aziz Al Mulla
Chief Investments Officer

Experience: more than 17 years

A Certified Public Accountant (CPA), Mr. Talal Al Mulla has been active in the banking and financial services industry since 1999. Mr. Al Mulla worked with Ernst & Young Bahrain being responsible for audit and consulting assignments for major financial institutions in the region. He joined Al Salam Bank setting up the Internal Audit function in 2006. In 2009, Mr. Al Mulla moved to the Investment Department where he has been sourcing and managing investment opportunities to the Bank. He also sits on the Board of Directors of a number of affiliates and subsidiary companies in which the bank has invested.



Mr. Ahmed Abdulla Saif
Group Head of Strategic Acquisition and Investment Management

Experience: more than 10 years

Mr. Ahmed Saif brings more than a decade of experience in the banking sector. Prior to joining Al Salam Bank-Bahrain in 2008 as an Associate in the Investment Team, he worked with DBS Singapore as an Investment Analyst. Over the last 8 years, Ahmed has added immense value to the Bank. In 2012 he was the Head of the Investment Middle Office Department, and in 2016 he took the reigns of the Investment Management Team. Ahmed sits on the Board of a number of ASBB affiliate and subsidiary companies, including, among others, NS Real Estate Holding, Darari Investment Company, SAMA Investment Company. Ahmed holds an MSc in Finance and Financial Law with Honors from SOAS University of London, UK, and a BSc with Honors in Commerce, majoring in Finance & Economics from DePaul University, USA.



Mr. Arif Mohammed Janahi
Head of Corporate Banking

Experience: more than 22 years

Mr. Arif Janahi is a well-nurtured commercial banker with more than 22 years of experience in Operations and Corporate Banking. He started his career with a well-known conventional bank before expanding his exposure with another conventional commercial bank where he was responsible to promote Corporate Banking products and services in the local market and the GCC. In 2006, Mr. Janahi joined Al Salam Bank–Bahrain as Head of Corporate Banking where he was responsible to establish the Department in liaison with the concerned committees and other departments in Al Salam Bank. Throughout the last 20 years of banking, Mr. Janahi gained a good experience in both conventional and Islamic banking backed by strong market network, knowledge of banking products, and credit assessment. Mr. Janahi holds an MBA from the University of Hull, UK.



Mr. Ali Habib Qassim
Acting Head of Private Banking

Experience: more than 17 years

Mr. Ali Habib Qassim is a professional banker with more than 17 years of experience in many areas including corporate, Investment and Private Banking. He started his career with corporate banking where he was responsible to market the corporate banking products and services in local markets moving to handling financial institutions and government relationships. In 2011, Mr. Qassim moved to Al Salam Bank-Bahrain to handle private banking clients and developing new products, locally and throughout GCC capitalizing on his investment experience. Mr. Qassim holds a Master Degree of Science from Emerson College, Boston. USA.



Mr. Mohammed Yaqoob Buhijji
Acting Head of Retail Banking

Experience: more than 13 years

Mr. Mohammed Buhijji has over 13 years of consultancy and banking experience. Prior to joining Al Salam Bank-Bahrain, Mr. Buhijji worked with Ernst & Young in the Business Risk Services being responsible of audit and consultancy services for major financial institutions and governmental bodies within Bahrain and abroad. In 2006, Mr. Buhijji joined Al Salam Bank's Internal Audit with the responsibility to set-up the Internal Audit function and Bank's various departments policies and procedures during the establishment of the Bank. Mr. Buhijji moved to Retail Banking in 2009 establishing key milestones by developing products, services, core banking system and policies. He had also played an essential role in the Bank's two acquisitions of the Bahraini Saudi Bank and BMI Bank integration and conversion phases. Mr. Buhijji served as a member in the Integration Steering Committee and also appointed in several management committees to lead the conversion of the bank's policies, products and core banking systems. Mr. Buhijji holds an MBA degree from University of Strathclyde Business School in UK, Glasgow and Bachelors degree in Accounting. He also attended two Management Executive Programs in Harvard Business School in USA and Ivey Business School in Canada.



Mr. Khalid Jalili
Acting Head of Finance

Experience: more than 17 years

Mr. Khalid Jalili has more than 17 years of experience in the field of accounting and finance. He joined Al Salam Bank-Bahrain in 2009 as the Head of Strategic Support department. Subsequent to the Bank's first business acquisition of Bahraini Saudi Bank B.S.C., he was appointed as the Acting Chief Financial Officer and was a member in the Acquisition Steering Committee and ALCO committee. Prior to joining Al Salam Bank, he had spent seven years working in the financial controls at Gulf International Bank B.S.C., a wholesale bank based in the Kingdom of Bahrain. Mr. Jalili started his career in the Audit and Assurance unit at Ernst & Young with the responsibility to carry out audit of different business sectors. Mr. Jalili holds a Bachelor degree in Accounting from University of Bahrain.





REGIONAL GROWTH

Al Salam Bank-Bahrain, in line with its vision to become a regional force in the Islamic financial service industry, expanded its geographical presence through its affiliate banks in Singapore, Algeria, Kenya and Seychelles.

BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors of Al Salam Bank-Bahrain B.S.C ("the Bank") have pleasure in submitting their report to the shareholders accompanied by consolidated financial statements of the Bank for the year ended 31 December 2016. The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, BMI Bank B.S.C (c) (together known as "the Group").

A lower growth rate in the OECD advanced economies, due to persistently low commodity prices, weak global trade, and lesser capital flows continued to hamper the global economic growth in 2016, while persistent low oil prices remained a negative economic force on Bahrain and the region. The multiple downgrades of Bahrain sovereign rating, as a result of the sharp drop in oil prices and a growing fiscal debt, has created a challenging business environment for the banking sector.

Despite these obstacles, Bahrain's economy has remained resilient. Fiscal consolidation efforts and the activation of a large infrastructure pipeline resulted in the non-oil sector, including the banking sector, performing reasonably well in 2016, underscoring the tangible resilience of Islamic banks and their offering of innovative products and services that are geared to revive investment, and restore confidence in the Bahrain economy.

Under these circumstances, the Group is pleased to report positive results again this year, posting a net profit attributable to shareholders of BD 16.2 million for the year ended 31 December 2016, an increase of 31% on the previous year, (2015: BD 12.3 million), taking into consideration provisions of BD 21.6 million for asset impairment,

attributable to a continued focus on the core banking business. Cost control measures during the year witnessed operating expenses of the Group decreasing marginally. As of 31 December 2016, total assets of the Group stood at BD 1,681.3 million (2015: BD 1,656.6 million).

Al Salam Bank-Bahrain (ASBB) has witnessed substantial asset growth over the last 5 years, having completed two business acquisitions, first with Bahraini Saudi Bank in 2009, and the second with BMI Bank B.S.C in 2014. In 2016, BMI Offshore Bank Seychelles ("BMIO") was handed over to shareholders after being placed under administration by the Central Bank of Seychelles ("CBS") in November 2014. Following CBS handover, BMIO was restructured and rebranded with Seychelles Pension Fund ("SPF") becoming a strategic partner and 30% minority shares. CBS approved the rebranding of the entity as Al Salam Bank-Seychelles ("ASBS" or the "Bank") as suggested by the Group. Seychelles is set to be the launching pad to regional markets, and will aim to expand by penetrating the banking sector of neighboring countries and create a bridge between the Gulf Cooperation Council countries and the Indian Ocean Rim countries.

... the Group is pleased to report positive results again this year, posting a net profit attributable to shareholders of BD 16.2 million for the year ended 31 December 2016, an increase of 31% on the previous year, (2015: BD 12.3 million), taking into consideration recognition of provision of asset impairment of BD 21.6 million for asset impairment...

Throughout 2016, the Group remained focused on maximizing and safeguarding shareholder value through sustained growth in core banking activities, investment in profit-yielding sovereign securities, and the availing of alternative sources of funding at competitive costs. The financing portfolio grew by 4.1% to BD 706 million during the reporting period.

The Group continued to adopt a cautious approach in selecting investments in line with the Bank's risk appetite. Aligned with a focus on stable, income generating assets, the Group successfully acquired a stake in USD 130 million (approx.) Multifamily Real Estate portfolio of prime US properties in Texas and North Carolina that have strong rental growth and high occupancy levels. The Group has a robust pipeline of stabilized assets in the United Kingdom and United States.

Going forward, the Directors and management of Al Salam Bank-Bahrain will leverage the Bank's enhanced infrastructure, resources and improved strength across core businesses in order to achieve even better results in 2017. We will continue to invest in our business, recognizing the need for excellent customer service, a wide range of customer centric products, and a strong network to support future growth, whilst supporting the growth and stability of the Islamic Financial services industry in Bahrain and across the globe. Your Bank is well positioned to achieve its vision of becoming one of the largest Islamic financial institutions in the region.

Retained earnings and appropriation of net income	BD'000
Balance at beginning of the year	46,803
Net profit for the year – 2016	16,219
Transfer to statutory reserve	(1,622)
Proposed dividends	(10,705)
Balance at end of the year	50,695

Directors' and senior management interest:

As required by the Central Bank of Bahrain rulebook set out below are the interests of directors and senior managers in the shares of Al Salam Bank-Bahrain B.S.C. and the distribution of the shareholdings as of 31 December 2016.

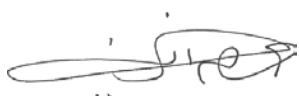
31st December 2016	
Directors' shares	1,691,721
Senior managers' shares	119,331
Total	1,811,052

Directors' remuneration for 2016 amounted to BD 389,000 (2015: BD 365,000).

	2016		
	No. of shares	No. of shareholders	% of total outstanding shares
Percentage of shares held			
Less than 1%	951,702,125	22,928	44.45
1% up to less than 5%	744,960,451	15	34.80
More than 5%	444,268,176	2	20.75
Total	2,140,930,752	22,945	100.00

Shareholders holding over 5%	Nationality	Holding
Bank Muscat S.A.O.G.	Oman	14.74%
Overseas Investment S.P.C.	Bahrain	6.01%

The Directors take this opportunity to express their appreciation to the leadership led by His Majesty King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince, Deputy Supreme Commander and First Deputy Premier Prince Salman bin Hamad Al Khalifa, the Ministry of Finance, the Ministry of Industry, Commerce and Tourism, the Central Bank of Bahrain, the Bahrain Bourse, correspondents, customers, shareholders and employees of the Bank for their support and collective contribution since the establishment of the Bank and we look forward to their continued support in the fiscal year 2017.



Shaikha Hessa bint Khalifa bin Hamad Al-Khalifa
Chairperson

15 February 2017
Manama, Kingdom of Bahrain



DIFFERENTIATED THROUGH INNOVATION

AlSalam Bank-Bahrain has won the International Real Estate Financing Summit – Middle East (IREF ME 2009) “Award of Excellence for Outstanding Achievement in Islamic Real Estate Product Innovation” for Milton Gate Acquisition. The landmark building is located in the financial district of the City of London in the close proximity of other prestigious financial institutions.

MESSAGE FROM THE CEO



2016 was a year characterized by stability and unity. Following the merger of Al Salam Bank-Bahrain and BMI Bank in 2014, and as a result the major restructuring of the business in 2015, the year witnessed the coming together of people, processes and procedures to form a single, stronger entity.

Considering the continued challenges posed by consistently unfavourable global and regional market conditions, Al Salam Bank-Bahrain B.S.C. ("Bank", "Group") performed well in 2016, underscoring the Group's ability to remain flexible and adapt.

A continued focus on the core banking business, comprising corporate, commercial and retail banking resulted in an impressive 7% increase in gross operating income to BD 63 million, compared to BD 58.9 million in 2015. The net profit attributable to shareholders of the Bank for the year was BD 16.2 million (2015: BD 12.3 million) after taking into consideration asset provisions of BD 21.6 million (2015: BD 22.9 million).

Throughout 2016, the Group remained focused on maximizing stakeholder and shareholder value whilst offering clients a diverse range of Shari'a-compliant innovative products and financial solutions. Aligned with this focus, the Group leveraged state of the art technology to launch a new e-statement service that offers even more convenience to our valuable customers. A second full-service branch was also opened in the Muharraq Governorate, further expanding our growing branch and ATM network, while the implementation of our new product development strategy within the retail segment resulted in the offering of an extended product range that

now includes quality, Shari'a-compliant insurance products.

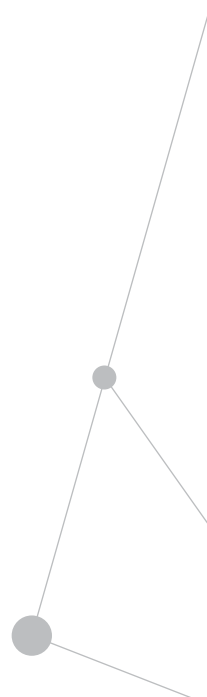
Key to the Group's success remains the loyalty of our customers. As such, in 2016 new products were introduced to show our genuine appreciation. These include the Danat Al Salam Savings Scheme and a tie up with Gulf Air that provides the Group's credit card users with Air Mile rewards.

Challenging market conditions ensured the Group continued to adopt a cautious approach in selecting investments in line with the Board's risk appetite. Aligned with a focus on stable, income generating assets, the Group successfully acquired a stake in USD 130 million (approx.) Multifamily Real Estate portfolio of prime US properties in Texas and North Carolina that have strong rental growth and high occupancy levels.

Going forward, the Investment business remains cautiously optimistic with a strong pipeline of stabilized assets in the UK and US, and a proven track record of placement capability within the GCC.

The Private Banking business witnessed an exceptional year, increasing the customer base by 8%, successfully exiting a number of investments, and launching investment opportunities that offer higher returns.

Corporate Social Responsibility (CSR)



remains at the heart of the Group's operations. Testament to this value is the signing of strategic agreements that support the Ministry of Housing in its provision of affordable housing to the citizens of the Kingdom of Bahrain.

In addition to supporting this endeavor, the Group also supported the Ministry of Health in the provision of quality healthcare solutions.

An important part of the Group's CSR programme is its mission to support the elevation of the Islamic Banking industry. In this regard, the Group lent its support to the Bahrain Institute of Banking and Finance (BIBF) for the development of an Islamic finance e-Learning platform that will revolve around the Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Overall the Group maintained a moderate approach to banking practices and relied on its core competencies in financing activities. The emphasis was on adherence to prudent risk management practices in granting new financing facilities and acquiring investments.

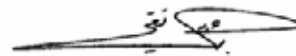
The capital adequacy continued to reflect a healthy ratio of 21.55% as of the end of the fiscal year (2015: 20.05%) with the Central Bank of Bahrain minimum requirement of 12.5%.

As we move towards 2017, the Board of Directors and Executive Management are confident that the Group is well placed to navigate the challenges the years ahead are sure to bring. The Bank is in the final stages of fully integrating all of its internal processes and procedures, and a strong, unified corporate culture is emerging.

On behalf of all the shareholders and the Board of Directors, I would like to take this opportunity to express my deep appreciation to the wise leadership of the Kingdom of Bahrain led by His Majesty King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman

Throughout 2016, the Group remained focused on maximizing stakeholder and shareholder value whilst offering clients a diverse range of Shari'a-compliant innovative products and financial solutions.

Al Khalifa and HRH the Crown Prince, Deputy Supreme Commander and First Deputy Premier Prince Salman bin Hamad Al Khalifa for their steadfast leadership and support. I am also grateful to the Board of Directors, Ministry of Industry, Commerce and Tourism, Central Bank of Bahrain, Bahrain Bourse for their continued support and guidance. I thank our valuable shareholders and loyal customers whose ongoing support is a key element of the Bank's future success. Finally, I express my sincere gratitude to the team at Al Salam Bank Bahrain B.S.C for their hard work and dedication which has always been the bedrock for our success and I look forward for their continued support in 2017.



Yousif Abdulla Taqi
Director & Group CEO



ALWAYS REACHING OUT TO YOU

Al Salam Bank-Bahrain offers its valued clients with comprehensive range of innovative and unique Shari'a-compliant financial products and services through its growing network of branches and ATMs across Bahrain utilizing the state-of-the-art technologies.

MANAGEMENT REVIEW OF OPERATIONS AND ACTIVITY

OPERATING ENVIRONMENT

The global economy entered its sixth year of stagnation, with sluggish growth in advanced economies, weak global trade, and lessening capital flows, especially in the emerging markets. Modest positive signals however did emerge, such as more advanced technologies, improved labor force skills, and greater productivity, although those potentially favorable factors are under pressure from ongoing political and economic uncertainties around the world.

In advanced economies, a modest and uneven recovery is expected to continue, with a gradual further narrowing of output gaps. Global growth projections slowed to 3.1 percent in 2016, reflecting a more subdued (reserved) outlook for advanced economies following the June U.K. vote in favor of leaving the European Union (Brexit), unsubstantiated expected growth in the United States, and China's high debt and production capacity issues. These developments have put further downward pressure on global interest rates, as monetary policy is now expected to remain accommodative for a longer period of time despite the few interest rates hikes already announced in the United States.

In emerging markets and developing economies, the challenges are diverse. The slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies continued to weigh on growth prospects and will remain as we move into 2017 where capital flow to these economies is expected to be limited.

BUSINESS ENVIRONMENT

Low oil prices continued to negatively impact Bahrain and the region. As a result, several rating agencies downgraded the credit ratings of Saudi Arabia, Oman and Bahrain during the year. Although Bahrain's downgraded by Moody's to Ba2 from Ba1 reflected growing concern over the Kingdom's ability to turn around massive deficits as a result of the sharp drop in oil prices, despite fiscal consolidation efforts, Bahrain's economy remained resilient and better diversified than other regional economies. Ramped up investment programmes and solid private sector expansion resulted in the non-oil sector recording a healthy expansion. In particular, the continued activation of a large infrastructure pipeline, with ongoing implementation of investments in strategic infrastructure projects partially funded by the GCC Development Fund, supported Bahrain's economy.

FINANCIAL PERFORMANCE

Against a backdrop of global and regional economic and political uncertainty, the Group underscored its ability to remain dynamic and adaptive, posting positive financial results again in 2016. The Group recorded a net profit attributable to shareholders of the Bank for the year of BD 16.2 million as of 31 December 2016, an increase of 31% on the previous year, (BD 12.3 million 2015), taking into consideration recognition of provision of asset impairment of BD 21.6 million.

These encouraging results are attributable to a steady increase in the core banking business comprised of corporate, commercial and retail banking activities. The Group reported a 7% increase in gross operating income from BD 58.9 million to BD 63 million in 2016. The Group deployed liquidity in high profit yielding sovereign Sukuk to the value of BD 358.3 million (2015: BD 350.5 million). The Group remained selective in financing in order to enhance asset quality with total assets of the Group standing at BD 1,681.3 million at 31 December 2016 (BD 1,656.6 million at 31 December 2015).

Throughout the reporting period the Group maintained its focus on maximizing and safeguarding shareholder value through sustained growth in core banking activities, investment in profit-yielding sovereign securities, and the availing of alternative sources of funding at competitive costs. As the Group moves into 2017, maintaining a healthy level of liquidity and reducing exposure to Real Estate while expanding core banking activities domestically and within MENA region, remains a strategic focus.

CAPITAL ADEQUACY

Al Salam Bank-Bahrain B.S.C. continues to enjoy strong financial solvency and liquidity. In accordance with the Basel III capital adequacy guidelines, the Bank's capital adequacy continued to reflect a healthy ratio of 21.55% as of the end of the fiscal year against the Central Bank of Bahrain minimum requirement of 12.5%.

ASSET QUALITY

The Bank continues to maintain a conservative approach in selecting new assets for financing and investments. As at the end of the fiscal year, 72% of the financing portfolio has been classified under the "satisfactory" category. Total provisions for financing portfolio was at BD 46.7 million (2015: BD 29.6 million). Additionally, the Bank has set up a dedicated Asset Remedial and Collection Unit and put in place a robust

mechanism to closely monitor past due facilities.

BANKING ACTIVITIES

Retail Banking

The Retail Banking business remained active in 2016. Underscoring the Group's continued commitment to the provision of dynamic and diversified products and services, innovative savings schemes, new services that leverage cutting edge technology, and initiatives and promotions that reward customers for their unwavering loyalty and patronage were introduced. A second full-service branch was also opened in Muharraq Governorate, bringing the Bank's network serving Al Salam Bank and BMI Bank (a subsidiary of Al Salam Bank-Bahrain) customers to 10 branches and 35 ATMs across the Kingdom.

Aligned with a product development strategy that not only ensures products satisfy customers' needs but also rewards them for their financial commitment to the Bank, a fully Shari'a-compliant savings scheme was launched. "Danat Al Salam" offers customers attractive returns and opportunities to win valuable monthly and quarterly prizes while giving them the flexibility to make regular financial contributions. Additional initiatives to reward customer loyalty included the launch of a special Credit Card Summer Promotion, and a tie-up with national carrier Gulf Air, whereby customers can earn Gulf Air Falconflyer miles, which can be redeemed for a number of benefits, when using any of the Bank's suite of Visa credit cards.

Further adding to the Bank's existing diversified retail product portfolio, the Bank signed a strategic agreement with one of the leading insurers, "Takaful International", to facilitate the offering of a suite of Sharia compliant insurance products to customers.

The Bank emphasized its commitment to constantly deliver an enhanced customer experience. The period witnessed the launch of a credit card payment gateway service channel in partnership with Benefit, offering

customers a safe and secure environment when paying their credit card bills without the need to visit a branch. Further leveraging state-of-the-art technology to enhance customer service, the Bank launched a new e-Statement service in 2016 that offers added convenience and a higher level of security, through a free-of-cost electronic statement ensuring customers do not have to wait for the statement to arrive via the post.

Highlighting the Bank's ongoing dedication to corporate social responsibility, a number of activities took place in 2016 geared at facilitating the provision of quality housing to all citizens of Bahrain. The Bank signed a strategic agreement with Eskan Bank that allow Bahraini citizens to take advantage of Mazaya Social Housing financing program from Al Salam Bank when buying units in the Danaat Al Riffa and Danaat Al Seef developments. The Bank also signed an agreement under the scheme with Diyar Al Muharraq to finance 'Deerat Al Oyoum' Social Housing Project end users. In addition, the Bank launched 'Dari Property promotion' open to all beneficiaries of the "Mazaya" social housing scheme to offer a range of benefits, including competitive profit rates, low down payment, monthly installments as low as rent, and cash back rewards for beneficiaries buying properties in two key projects of Manara Developments namely: Kenaz Al Bahrain project in Al Qadam and Wahati project in Muharraq.

Corporate Banking

With a balanced and diversified portfolio, the Corporate Banking business navigated the challenges of 2016. Post- merger consolidation and the forging of new international partnerships assisted the Bank in overcoming the regional liquidity challenges and growing competition for quality assets.

Throughout the year the focus remained on building stronger relationships, enhancing the division's core banking role, and maintaining the Bank's leading market

position through a cautious approach to the selection and booking of quality assets.

The Bank signed two strategic agreements with Eagle Hills and Diyar Al Muharraq that makes Al Salam Bank-Bahrain amongst the first to form a real estate development escrow account model in the Kingdom of Bahrain for the Marassi Al Bahrain and Deerat Al Oyoum projects.

In addition to building the corporate customer base, and maintaining the quality of the assets portfolio, Corporate Banking acted as an agent for a new BD 138 million syndicated facility for developing over 2,000 social housing units. The Group continued to lend its backing to Tamkeen, increasing the Group's support by an additional BD 10 million. To date, the Group have supported more than 120 Bahraini Small & Medium Enterprises (SME's) through the scheme.

Private Banking

Although 2016 presented challenging market conditions, the Private Banking Department witnessed an exceptional year, both in terms of financial performance and in the offering of elevated services and innovative products to its exclusive clientele. During the reporting period the department maintained an unwavering focus on service excellence and as a result the customer base increased by 8% with deposits remaining stable and increasing marginally by 1.7%, with funds allocated to bank investment products representing an increase in excess of 7%. The department also successfully exited a number of investments, and launched a USD 20 million Multi Family Real Estate investment offering providing clients with investment opportunities that offer higher returns. In addition, a BD10 million sovereign Sukuk was sold and a BD 40 million Sukuk was launched to fund subsidiary real estate projects. Total placements for the year exceeded USD 130 million.

The Department launched its new Visa Infinite, a credit card designed to meet the requirements of a select group of high-

net-worth individuals. The card offers unparalleled services and features, such as easy access to a diverse selection of privileges specially tailored for affluent travelers, with over 500+ premium airport lounge access, free Gulf Air Falconflyer loyalty miles, multi-trip travel insurance coverage of up to USD 1 million, 24 hours concierge services amongst other benefits.

Throughout 2016 the strategic focus remained on lowering the cost of funding, booking long term strong assets, providing robust investment opportunities and forging value added partnerships to facilitate the offering of innovative products and bespoke services to the Bank's valued clients.

Investments

Challenging market conditions ensured the Group continued to adopt a cautious approach in selecting investments in line with the Bank's risk appetite. Aligned with a focus on stable, income generating assets, the Group successfully acquired a majority stake in USD 130 million (approx.) Multifamily Real Estate Portfolio consisting of seven properties located in Texas (four) and North Carolina (three) that have strong rental growth prospects and high occupancy levels.

Going forward, the Investment department remains cautiously optimistic with a strong pipeline of stabilized assets in the UK and US supported by a proven track record of placement capability within the GCC.

Treasury & Capital Markets

Although 2016 presented serious market challenges, the Treasury division managed to successfully grow its assets and efficiently manage its liabilities. Treasury witnessed substantial growth in FX, with almost 60% growth achieved attributable to a wider customer base, synergies between Al Salam Bank and BMI treasury units, and a more dynamic repose to market changes and opportunities through FX trading activities.

The Division widened the counterparties list introducing their products to new banks and regions with the IIFM standard document implementation facilitating an expanded client base.

The Group continued to invest in high quality Sukuk while growing the Fixed income portfolio through direct and indirect exposures to regional sovereign and corporate papers. The Total Fixed income portfolio was maintained above USD 1 billion, representing one of the largest assets classes held by the Bank.

In collaboration with the private banking team, the division also introduced several tranches of leverage products that primarily invest in Central Bank of Bahrain (CBB) papers. Furthermore, the division introduced the first of its kind FX trading platform to enable customers to trade in currencies and take advantages of a most liquid and dynamic financial market.

In terms of liquidity, the Group enhanced the level of liquidity during the year, substantially improving on 2016 through several long term financing transactions executed by the Treasury (Islamic Repo) through partnership with leading international banks. Going forward, the fully integrated BMI and Al Salam Treasury divisions, will continue to enhance liquidity, and have put in place measures in readiness for Basel III liquidity measures (HQLA) and is well positioned for further asset growth.

Operations

2016 witnessed widespread operational improvements that substantially enhanced the Group's operational effectiveness.

During the year, consolidating the Core Banking System remained a top priority and major milestones were achieved, with a unified system on track for launch mid-2017.

As per CBB requirements, a number of new systems were also launched in 2016. These included Compliance and AML systems, and the EFTS settlement system. The RTGS

system underwent a number of upgrades and will also be launched in 2017.

The division continues to leverage state of the art technology to automate processes and enhance quality, control and feedback measures while accomplishing higher levels of efficiency. Going forward Operations division will remain dedicated to further reducing turnover time and the delivery of superior customer service for the benefit of all stakeholders.

Information Technology

2016 witnessed the achievement of major milestones for the Information Technology Department as it worked to provide the Group with state of the art technology that supports operational effectiveness. Integration of the Group's network systems, including the unification of processes procedures continued to be a major focus during 2016 to ensure the delivery of enhanced efficiency and convenience to the Group's customers with a fully integrated system earmarked for launch in 2017.

The Department remains a key player in the delivery of the Group's mission to provide innovative products and services with superior convenience and customer service excellence by leveraging cutting edge technology. The achievements in 2016 ensure that the Department is on track to deliver projects that support this mission in 2017.

Corporate Governance and Risk Management

Effective Corporate Governance and Risk Management remained a top priority for the Group in 2016. Compliance with Central Bank of Bahrain and other regulatory guidelines is a fundamental element of the Group's operating environment and as such multiple internal awareness sessions were held covering topics such as Risk Appetite, ICAAP, Operational Risk and Information Security.

During the year, the focus was on redefining the risk appetite of the Bank following its

acquisition of BMI Bank and consolidating risk reporting frameworks. The risk policies and procedures have been integrated with a uniform approach adopted at the Group level. The Bank's stress testing framework has also been further enhanced in light of the developments in the operating environment.

As we move into the new year, ongoing efforts to enhance the overall risk management framework will continue, with a particular emphasis on the further development of internal resources and general risk awareness amongst members of staff. The risk appetite framework will continue to be revisited in order to ensure alignment with the Bank's strategy and overall risk exposure. Stress testing and ICAAP frameworks will also be reviewed with an emphasis on validation of the stress testing scenarios currently carried out by the Bank.

Know Your Customer

Appropriate due diligence is rigorously conducted to ensure that the financial activities of the Group's customers are performed in accordance with the guidelines issued by the regulatory authorities. The Group strictly adheres to the Financial Crimes Module of the Central Bank of Bahrain's rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies.

In 2016 the Group was unceasing in its mission to enhance its world-class systems. Aligned with these efforts, the Group partnered with three reputable automated Anti-Money Laundering software providers and Fund Transfer Screening Systems. These systems are set to further support the Group in monitoring financial activities and understanding our customers.

Human Capital

Attracting, developing and retaining talent, whilst nurturing an effective and cohesive corporate culture remained a key focus for the Group. In particular, providing training and development opportunities for a growing staff population is a fundamental element towards maintaining a corporate culture of performance excellence.

Aligned with this focus, 6,318 hours were dedicated to training during the reporting period. Numerous in house training sessions were held on topics such as Cyber Security, VAT, IFRS9, Basel III, Online AML & Online Training Library, while a number of staff achieved professional qualifications such as CIMA, PRM (Professional Risk Manager), ADIF, (Advance Diploma in Islamic Finance), and PMP. In addition, the Bank participated in BIBF's Project Management Convention to offer Bank staff high caliber trainers and a comprehensive range of project management programmes and workshops.

The Bank is committed to good corporate citizenship. Underscoring this pledge, 30 young Bahrainis were hosted as part of the Annual Summer Internship Programme. The programme, which has been running for the last 10 years, has hosted over 240 students from University of Bahrain as well as at other local and international universities to date. Further underscoring our dedication to Bahrain's youth and bridging the gap between education and the workforce, the Bank continued its support of INJAZ Bahrain, a prominent Bahraini Youth Leadership program. More than 20 Students were offered an insight into the world of Islamic banking as part of the "Job Shadow" Programme where 29 ASBB staff volunteered their time to share their career experience and expertise, as the Bank played host for the ICamp Coordinators meeting.





STRIVING FOR THE UNIQUE

Launch of Al Salam Asia REIT Fund, the world's first Asian REIT fund that invests along Shari'a principles.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency and maintaining full compliance with the laws, rules and regulations that govern the Bank's business. Since 2010 when the new Corporate Governance Code was introduced by the Central Bank of Bahrain, the Bank has been implementing several measures to enhance its compliance with the corporate governance rules. A separate section on the status of compliance with the corporate governance rules and High Level Controls Module is included in this report.

SHAREHOLDERS

Major Shareholders as of 31 December 2016

Name	Country of origin	No. of shares	% Holding
Bank Muscat (S.A.O.G.)	Oman	315,494,795	14.74
Overseas Investment S.P.C.	Bahrain	128,773,381	6.01
Al Rushd Investments W.L.L.	UAE	105,000,000	4.90
Tasameem Real Estate Company L.L.C.	UAE	102,264,615	4.78
D S L Yachts W.L.L.	UAE	77,450,000	3.62
First Energy Bank B.S.C.	Bahrain	73,884,098	3.45
Royal Court Affairs, Sultanate of Oman	Oman	70,825,359	3.31
Securities and Investment Company B.S.C. (c)	Bahrain	63,385,798	2.96
Gimbal Holding Company S.P.C.	Bahrain	40,553,633	1.89
National Bank of Abu Dhabi PJSC	UAE	38,500,000	1.80
Aabar Investments PJSC	UAE	38,000,000	1.77
Sayed Hussain Ali Alawy AlQatary	Bahrain	27,720,321	1.29
Al Sueban Company	Bahrain	26,250,000	1.23
Global Express Company W.L.L.	Bahrain	25,000,000	1.17
Abdulla Salem Abdulla Salem Al Hussaini	UAE	23,352,634	1.09

Shareholding – 31 December 2016

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	951,702,125	22,928	44.45
1% to less than 5%	744,960,451	15	34.80
5% to less than 10%	128,773,381	1	6.01
10% to less than 20%	315,494,795	1	14.74
20% up to less than 50%	-	-	-
50% and above	-	-	-
Total	2,140,930,752	22,945	100.00

The outstanding ordinary share ownership of the Bank is distributed as follows:

Nationality	No. of shares	Ownership percentage
Bahraini		
Government	-	-
Institutions	414,899,009	19.38
Individuals	131,706,474	6.15
GCC		
Government	76,005,223	3.56
Institutions	857,795,440	40.06
Individuals	461,088,768	21.54
Other		
Institutions	99,659,181	4.65
Individuals	99,776,657	4.66
Total	2,140,930,752	100.00

BOARD OF DIRECTORS

The Board of Directors provides central leadership to the Bank, establishes its objectives and develop the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors determine the future of the Bank through the protection of its assets and reputation. They will consider how their decisions relate to “stakeholders” and the regulatory framework. Directors shall apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors shall be accountable to the shareholders of the Bank for the Bank’s performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank’s affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies including its customers, correspondents, employees, suppliers and local community. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank. In discharging that obligation, directors may rely on the honesty and professional integrity of the Bank’s senior executives and external advisors and auditors.

Board Composition

The Board consists of members of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of Members with adequate professional background and experience. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to prior screening by the Remuneration, Nomination and Corporate Governance Committee and the Board of Directors as well as approval by the Shareholders and the Central Bank of Bahrain. The classification of “executive”, “nonexecutive”

and “independent non-executive” directors is as per definitions stipulated by the Central Bank of Bahrain.

Mandate of the Board of Directors and Directors’ Roles and Responsibilities

The principal role of the Board of Directors (the Board), is to oversee the implementation of the Bank’s strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board is also responsible for the consolidated financial statements of the Group. The Board ensures the adequacy of financial and operational systems and internal control, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated responsibility for overall management of the Bank to the Chief Executive Officer.

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes strategic planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority levels, appointment of auditors and review of the financial statements and financing activities including annual operating plan and budget, ensuring regulatory compliance and reviewing the adequacy and integrity of internal controls. All policies pertaining to the Bank’s operations and functioning are to be approved by the Board.

Each Director holds the position for three years, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. The majority of ASBB Directors (including the Chairman and/or Vice Chairman) are required to attend the Board meetings in order to ensure a quorum.

Board Elections System

Article 26 of the Bank's Articles of Association provides the following:

1. The Bank shall be administered by a Board of Directors consisting of not more than fourteen members and not less than five members. The Board's term shall be three years which may be renewed.
2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to vote shall be forfeited for the percentage he has exercised to appoint his representative. If a percentage is left after exercising his right to nominate, he may use such percentage to vote.
3. Other members of the Board shall be elected by the General Assembly by secret ballot.

The Board of Directors shall elect, by secret ballot, a Chairman and one or more Vice Chairman every three years. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him.

Article 29 of the Article of Association covers the "Termination of Membership in the Board of Directors". It provides the following:

A Director shall lose his office on the Board in the event that he:

- a. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;
- b. Resigns his office by virtue of a written request;
- c. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;
- d. Is elected or appointed contrary to the provisions of the Law; and

- e. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company.

Independence of Directors

An independent director is a director whom the Board has specifically determined, has no material relationship which could affect his independence of judgment, taking into account all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during 2016 that they have met all the conditions stipulated under Appendix A of the Corporate Governance Code.

In 2016, the members of the Board were:

Independent and Non-executive Directors

1. H.H. Shaikha Hessa bint Khalifa Al Khalifa - Chairperson
2. H.E. Shaikh Khalid Bin Mustahail Al Mashani - Vice Chairman
3. Mr. Hussein Mohammed Al Meeza
4. Mr. Salman Saleh Al Mahmeed
5. Mr. Essam Bin Abdulkadir Al Muhaidib
6. Mr. Mohamed Shukri Ghanem
7. Mr. Khalid Salem Al-Halyan
8. Mr. Sulaiman bin Mohamed Al Yahyai
9. Mr. Hisham Saleh Al Saie

Executive and Non-independent Directors

1. Mr. Yousif Abdulla Taqi

All current Directors were elected for a three-year term on 24 February 2015.

Induction and Orientation for New Directors

When the new Board of Directors was elected on 24 February 2015, all directors were provided with information related to the Corporate Governance guidelines, the Board and Committee Charter, Committee and the Code of Conduct policies and other documents.

Evaluation of Board Performance

Members of the Board of Directors have been requested to assess their self-performance, how the Board of Directors' operate, evaluate the performance of each committee in light of the purposes and responsibilities delegated to it, their attendance and their involvement in the decision making process. Below is a summary of the evaluation results:

- The directors self-assessment results were either above expectation or satisfactory in most areas, including directors' skills and experience, understanding of the Bank's business and Board operations.
- Board members have identified certain objectives moving forward such as enhancing the organic growth of the Bank, building a strong succession plan, emphasize on diversified revenue stream, sourcing quality investments in addition to the focusing on the strategic plans of the Bank.
- The performance results of the Chairperson, Committee chairs and the performance of different Board committees were mostly above expectation.
- Committee chairs and members have identified different objectives moving forward; including but not limited to:
 1. Guide Management to accomplish the Board's objectives and adhere to policies and long term goals.
 2. Avoiding troublesome potential investments.
 3. Assist Management in focusing on profitable investments.
 4. Resolving long outstanding and legacy matters.

Remuneration of Directors

Remuneration of the Directors as provided by Article 36 of the Articles of Association states the following:

"The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of dividends of not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the Minister of Industry, Commerce and Tourism.

The Board, based upon the recommendation of the Remuneration and Nomination Committee and subject to the laws and regulations, determines the form and amount of director compensation subject to final approval of the shareholders at the Annual General Assembly meeting. The Remuneration and Nomination Committee shall conduct an annual review of directors' compensation."

Per the Directors' Appointment Agreement, the structure and level for the compensation for the Board of Directors consist of the following:

1. Annual remuneration subject to the annual financial performance of the Bank and as per the statutory limitation of the law.
2. The total amount payable to each Board member with respect to Board and Committee meetings attendance shall be taken into consideration when determining each member's annual remuneration.
3. The remuneration of the Board of Directors will be approved by the shareholders at the Annual General Assembly.

In addition to the above, Directors who are employees of the Bank shall not receive any compensation for their services as directors. Directors who are not employees of the Bank may not enter into any consulting arrangements with the Bank without the prior approval of the Board. Directors who serve on the Audit Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Bank.

The Board Charter

The Board has adopted a Charter which provides the authority and practices for governance of the Bank. The Charter was approved by the Board with the beginning of its term in 2012 and includes general information on the composition of the Board of Directors', classification of Directors', Board related Committees, Board of Directors' roles and responsibilities, Board of Directors' code of conduct, Board remuneration and evaluation process, insider dealing, conflict of interest and other Board related information.

Conflict of Interest

The Bank has a documented procedure for dealing with situations involving "conflict of interest" of Directors. In the event of Board or its Committees considering any issues involving "conflict of interest" of Directors, the decisions are taken by the full Board/ Committees. The concerned Director abstains from the discussion/ voting process. These events are recorded in Board/ Committees proceedings. The Directors are required to inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to, other organizations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director.

Code of Conduct

The Board has an approved Code of Conduct for ASBB Directors. The Board has also approved a Code of Ethics for the Executive Management and staff that include "whistleblowing" procedures. The responsibility for monitoring these codes lies with the Board of Directors. The Directors' "Code of Conduct" is published on the Bank's website. The directors' adherence to this Code of Conduct is periodically reviewed.

Board Meetings and Attendances

The Board of Directors meets at the summons of its Chairperson or her Deputy (in event of his absence or disability) or if requested to do so by at least two Directors. According to the Bahrain Commercial Companies Law and the Bank's Articles of Associations, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2016, five Board meetings were held at the Bank's premises as follows:

Board Meetings in 2016 - Minimum Four Meetings Per Annum

Members	9 Feb	25 Apr	20 Jun	31 Oct	5 Dec
H.H. Shaikha Hessa bint Khalifa Al Khalifa	√	√	√	√	√
Shaikh Khalid bin Mustahail Al Mashani	√	√	√	√	√
Mr. Hussein Mohamed Al Meeza	√	√	√	√	√
Mr. Salman Saleh Al Mahmeed	√	√	√	√	√
Mr. Essam Abdulkadir Al Muhaidib	√	√	√	√	√
Mr. Sulaiman Mohammed Al Yahyai	√	√	√	√	√
Mr. Mohamed Shukri Ghanem	√	√	√	√	√
Mr. Hisham Saleh Al Saie	√	√	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√	√	√
Mr. Yousif Abdulla Taqi	√	√	√	√	√

* As per the CBB Rulebook, volume 2, the full Board should meet once every quarter. The Board of ASBB did not hold a meeting for Q3 2016, however the Audit and Risk committee met during September.

Directors' Interests

Directors' shares ownership in two-year comparison as on 31 December:

Members	No. of shares	
	2016	2015
H.H. Shaikha Hessa Al-Khalifa	100,000	100,000
Mr. Essam Bin Abdulkadir Al Muhaideb	100,000	100,000
Al Muhaideb Holding	4,314,522	4,314,522
Mr. Hussain Al-Meeza	462,819	462,819
Top Enterprise W.L.L	925,000	925,000
Mr. Salman Saleh Al Mahmeed	100,000	100,000
Mr. Yousif Abdulla Taqi	818,734	818,734
H.E. Shaikh Khalid bin Mustahail Al Mashani	0	0
Mr. Sulaiman Al Yahyai	0	0
Mr. Hisham Al Saie	0	0
Mr. Mohammed Ghanem	0	0
Mr. Khalid Al Halyan	10,000	10,000

Related Entities

The following shareholder is related to Mr. Hussein Al Meeza:

- *Top Enterprises L.L.C. owns 925,000 shares*

The following shareholder is related to Mr. Essam Al Muhaideb:

- *Al Muhaideb Holding owns 4,314,522 shares*

Approval Process for Related Parties' Transactions

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the unanimous approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements under note 31 - related party transaction.

Material Transactions that require Board Approval

While any transaction above BD 5 million and up to BD 10 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD 10 million requires the approval of the Board of Directors of the Bank. In addition, when acquiring 20% of a company Board approval is required regardless of the amount.

Directorships held by Directors on Other Boards

The High Level Controls Module provides that no director should hold more than three directorships in Bahrain public companies. All members of the Board of Directors met this requirement.

Board Committees

The Board level committees are formed, and the Board of Directors appoints their members, at the beginning of each Board term. They are considered the high level link between the Board and the Executive Management. The objective of these committees is to assist the Board in supervising the operations of the Bank. The Committee reviews issues that are submitted by the management to the Board and makes recommendations to the Board for their final review.

Below are certain information relating to the work of certain Board Committees during the year 2016, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee.

The full texts for the Terms of Reference for Board Committees (Executive Committee, Audit and Risk Committee, and Remuneration, Nomination and Corporate Governance Committee) are published on the Bank's website.

Executive Committee**Committee Meetings in 2016 - Minimum four meetings per annum.**

Six Committee meetings were held during 2016 as follows:

Members	21 Jan	24 Mar	20 Apr	30 May	18 Oct	4 Dec
Mr. Hussein Mohamed Al Meeza (Chairman)	√	√	√	√	√	√
Mr. Essam Abdulkadir Al Muhaidib	-	√	√	√	√	-
Mr. Sulaiman Mohammed Al Yahyai	√	√	√	-	√	√
Mr. Mohamed Shukri Ghanem	√	√	-	√	√	√
Mr. Yousif Abdulla Taqi	√	√	√	√	√	√
Mr. Hisham Saleh Al Saie*	√	N/A	N/A	N/A	N/A	N/A

*Member of the committee during the previous term.

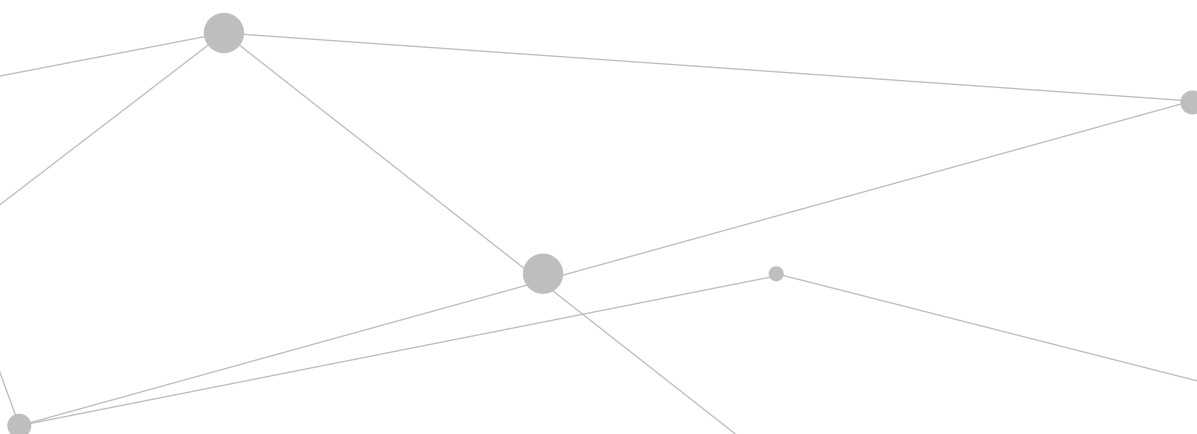
Summary of responsibilities: Deputizing the Board on matters pending decisions between Board meetings, considering and reviewing management's operational reports and regulatory and strategic developments, reviewing and approving credit and market risk proposals in excess of the authority limits of the relevant committees, reviewing management's recovery procedures for problem loans and requirements for provisioning.

Audit and Risk Committee**Committee Meetings in 2016 - Minimum four meetings per annum.**

Four Committee meetings were held during 2016 as follows:

Members	8 Feb	24 Apr	25 Sep	30 Oct
Mr. Salman Al Mahmeed (Chairman)	√	√	√	√
H.E. Shaikh Khalid bin Mustahil Al Masheni	√	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√	√

Summary of responsibilities: Reviews the internal audit program and internal control system, considers major findings of internal audit review, investigations and management's response, ensures coordination among internal and External Auditors, monitors trading activities of key persons and ensures prohibition of the abuse of inside information and disclosure requirements and reviews the periodic risk reports.



Remuneration, Nomination and Corporate Governance Committee Committee Meetings in 2016 - Minimum two meetings per annum.

Two meetings were convened during 2016:

Members	3 Apr	4 Dec
H.H. Sh. Hessa bint Khalifa Al Khalifa (Chairman)	√	√
Mr. Khalid Salim Al Halyan	√	√
Mr. Hisham Saleh Al Saie	√	√

Summary of responsibilities: Make specific recommendations to the Board of Directors' on both remuneration policy and individual remuneration packages for the Chief Executive Officer and other senior managers. Evaluate senior management's performance in light of the Bank's corporate goals. Make recommendations to the Board from time to time as to the changes the committee believes to be desirable to the size of the Board or any committee of the Board.

Oversees and monitors the implementation of the governance policy framework. Reviews on an annual basis the Bank's compliance with the respective Corporate Governance rules and regulations as well as the Board's and subcommittees' charters. Reviews on an annual basis the Shari'a Supervisory Board's compliance with its approved charter.

SHARI'A SUPERVISORY BOARD

Al Salam Bank-Bahrain is guided by a Shari'a Supervisory Board consisting of five distinguished scholars. The Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a.

The Board meets at least 4 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

EXECUTIVE MANAGEMENT

The Board delegates the authority for management of the Bank to the Group Chief Executive Officer. The Group CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Fatwa and Supervisory Board.

Senior Managers' Interests

The number of shares held by the senior managers, in two-year comparison, as on 31 December is as follows:

Members	Shares	
	2016	2015
Dr. Mohammed Arbouna	336	336
Mr. Essa Bohijji	118,995	96,495
Total	119,331	96,831

Management Committees

The Chief Executive Officer is supported by a number of management committees each having a specific mandate to give focus to areas of business, risk and strategy. The various committees and their roles and responsibilities are:

Committee	Roles and responsibilities
Credit/Risk Committee	Recommending the risk policy and framework to the Board. Its Primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.
Asset Liability Committee	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
Investment Committee	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.
Technology Steering Committee (TSC)	TSC oversees the overall Information Technology (IT) function of the bank. The committee members consist of senior management, business heads and chaired by the Chief Operating Officer. The committee reviews major IT projects and sets their priority. It supervises the implementation of the approved IT annual plan are met within set deadlines and budgetary allocations.

Executive Management Compensation

The performance bonus of the Chief Executive Officer is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Chief Executive Officer for review and endorsement by the Remuneration and Nomination Committee subject to Board approval.

COMPLIANCE

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the respective regulators.

Due diligence is performed to ensure that the financial activities of the Bank's

customers are performed in accordance with the guidelines issued by the regulatory authorities.

The Bank continuously endeavors to enhance the Compliance and Anti Money Laundering systems and in that process, agreements have been signed with leading companies to automate the process of monitoring. The implementation would further increase the effectiveness of monitoring the client activities and further enable the Group to understand its customers and their financial activities.

The Bank adheres to the Financial Crimes Module of Central Bank of Bahrain's rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the

international organization responsible for developing global anti-money laundering policies.

REMUNERATION AND APPOINTMENT OF THE EXTERNAL AUDITORS

During the Annual General Assembly Meeting held on 29 February 2016, the shareholders approved the appointment of Ernst & Young as external auditors for the year ending 31 December 2016 and authorized the Board of Directors to determine their remuneration.

INTERNAL CONTROL

Internal control is an active process that is continually operating at all levels within the Bank.

The Bank has established an appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on a periodic basis. Every employee of the Bank participate in the internal control process and contribute effectively by identifying risk at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the senior management and corrective actions are taken.

KEY PERSONS POLICY

The Bank has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares, with the primary objective of preventing abuse of inside information. Key Persons are defined to include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' Policy is entrusted to the Board's Audit Committee.

The Key Persons' Policy is posted on the Bank's website.

EMPLOYEE RELATIONS

Al Salam Bank is committed to promoting a diverse and inclusive environment, and encourages understanding of the individuality and creativity that each employee uniquely brings to the Bank. Employees are hired and placed on the basis of ability and merit. Evaluation of employees is maintained on a fair and consistent basis.

In line with the Bank's policy of being an equal opportunity firm and as part of Central Bank of Bahrain's Rulebook and Corporate Governance requirements, the Bank shall not employ relatives of employees up to the 4th degree.

Existing employees must alert the Human Resources of any relatives or relationship of other employees or candidates being interviewed. Failure to do so and the employee will be subject to disciplinary action pursuant to the Law No. 36 of 2012 Promulgation of the Labour Law in the Private Sector and the Bank's Disciplinary Guidelines.

COMMUNICATION POLICY

The Bank recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall goals for communication, the Bank follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

The Bank uses modern communication technologies in a timely manner to convey messages to its target groups. The Bank shall reply without unnecessary delay, to information requests by the media and the public. The Bank strives in its communication to be as transparent and open as possible while taking into account bank confidentiality. This contributes to maintaining a high level of accountability. The Bank also proactively develops contacts with its target groups and identifies topics of possible mutual interest. The

Bank reinforces clarity by adhering to a well-defined visual identity in its external communications.

The Bank's formal communication material is provided in both Arabic and English languages. The Bank maintains a Legal Policy published on its website: www.alsalambahrain.com that includes terms and conditions on the use of information published on the site.

The annual reports and quarterly financial statements, Board Charter and Corporate Governance report are published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Bank regularly communicates with its staff through internal communications to provide updates of the Bank's various activities.

Consumer / Investor Awareness Programmes and Tools

To fulfill its goals for external communications, promoting its products and communicating with its stakeholders, ASBB employs a variety of communications tools. The most important of them are listed below:

Customers	Seminars, bilateral contacts, website, newsletter, media campaigns, corporate presentations, speeches, publications, brochures, leaflets, Radio and TV advertising, SMS etc.
Investors	Publications, road shows (mostly bilateral contacts), Internet, media, investor presentations, wire services, brochures, leaflets, advertising etc.
Regulatory & Governmental Authorities	Institutional contacts, seminars, visits, bilateral contacts, Internet, newsletter, media, publications (in particular the Annual Report), brochures, leaflets, etc.
Media Communications	Press releases, interviews, speeches, background seminars, etc.
General Public Communications	Media, other key target groups as multipliers.

WHISTLE BLOWING POLICY

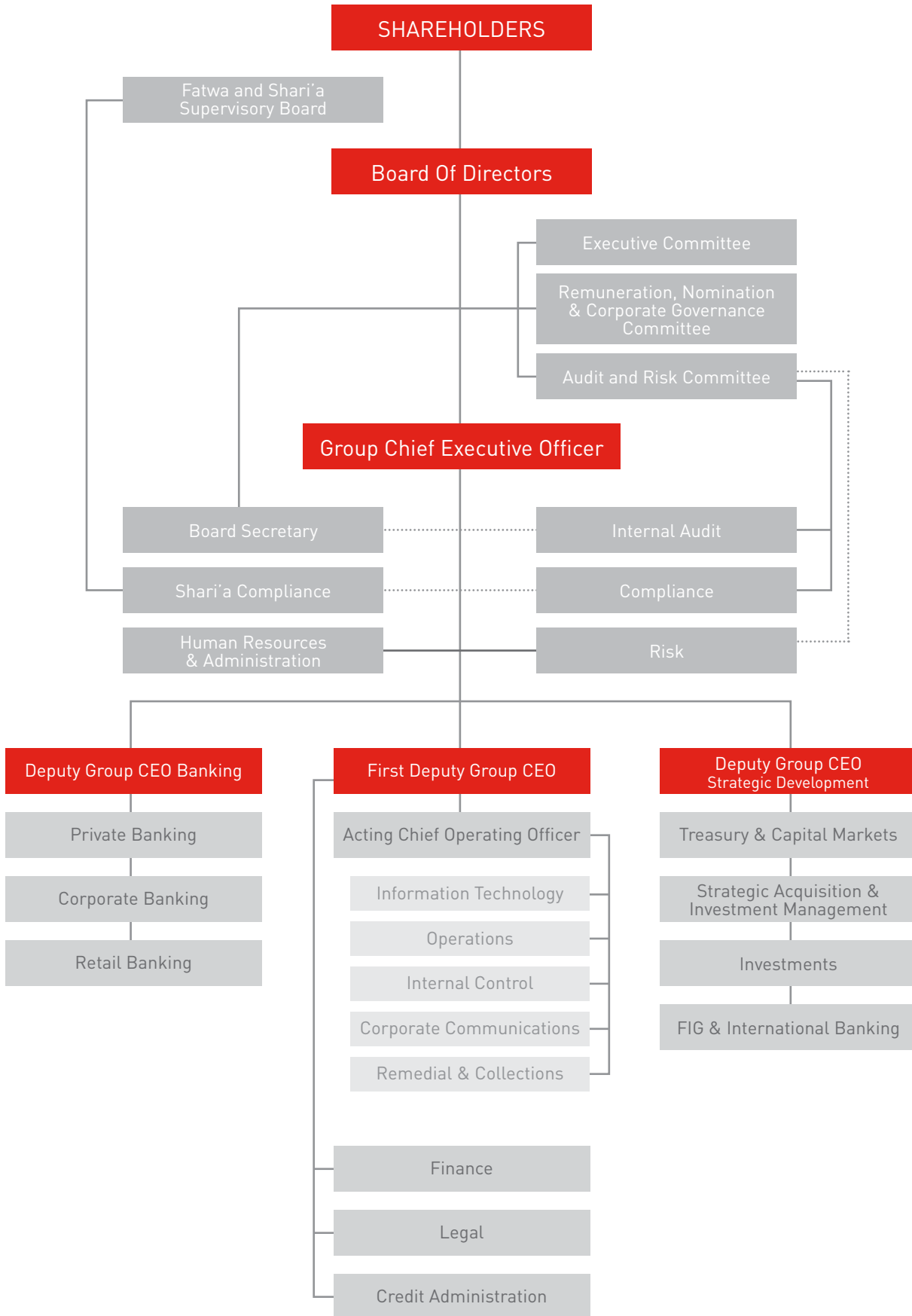
The Bank has a whistle blowing policy with designated officials to whom the employee can approach. The policy provides adequate protection to employees for any reports in good faith.

The Board's Audit Committee oversees the implementation of this policy.

The directors have adopted the following code of conduct in respect of their behavior:

- To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank's business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;
- Not to agree to the business of the Bank being carried out, or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank's creditors;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;
- Not to enter into competition with the Bank;
- Not to demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not to take advantage of business opportunities to which the Bank is entitled for himself/ herself or his/her associates;
- Report to the Board any potential conflict of interest, and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject of proposed conflict of interest.

ORGANIZATIONAL STRUCTURE



CHANGES IN MANAGEMENT AND REPORTING LINES DURING 2016

Direct Reports to the Group CEO

- Dr. Anwar Al Sada – First Deputy Group CEO
- Mukundan Raghavachari – Deputy Group CEO - Strategic Development
- Anwar Murad – Deputy Group CEO - Banking
- Seema Al Kooheji – Board Secretary (Indirect)

Direct Reports to First Deputy Group CEO

- Abdulkarim Turki – Acting Chief Operating Officer
- Elias Murad – Group Head of Credit Administration
- Qassim Taqawi – Group Head of Legal
- Khalid Jalili – Acting Head of Finance

Direct Reports to Deputy Group CEO - Banking

- Ali Qassim – Acting Head of Private Banking
- Arif Janahi – Head of Corporate Banking
- Mohammed Buhijji – Acting Head of Retail Banking

Direct Reports to Deputy Group CEO - Strategic Development

- Ahmed Saif – Group Head of Strategic Acquisition & Investment Management
- Talal Al Mulla – Chief Investments Officer
- Hussain Abdulhaq – Head of Treasury & Capital Markets
- Sadiq Shaikh – Head of FIG & International Banking
- Harish Venkatakrishnan – Head of Investment Administration

PENALTIES

For ASBB (Solo)

During 2016: An amount of BD 5.8 thousand was paid as penalty to the Central Bank of Bahrain (CBB) for the failure to comply with CBB requirements relating to Paragraphs BR-1.3.1 and BR-2.2.4 of Volume 2 of the CBB Rulebook to submit the following reports to CBB before the respective deadline dates:

1. Details of the total remuneration.
2. Progress report on private placements on education experts.

The Bank was required to pay a net of BD 4,000 for the late compliance of Electronic Fund Transfer System (EFTS).

For BMI (Solo)

During 2016: An amount of BD 200 was paid as penalty to the Central Bank of Bahrain (CBB) for the failure to comply with CBB requirements relating to Paragraphs BR-3.1.7A which requires the Bank to submit details of their large exposure within 20 calendar days.

Hence, the total regulatory penalties of the Group amounted to BD 10,000.



A MISSION TO DELIVER

COMPREHENSIVE SERVICES

Staying true to the values of Al Salam Bank-Bahrain, the Bank invested in a range of investment portfolio in diverse sectors such as logistics, alternative energy, education, hospitality and real estate development of major international residential and office projects in strategic countries varying from USA to Europe and Asia.

REMUNERATION POLICY

This document has been prepared in accordance with CBB remuneration disclosure requirements for Islamic Banks under High Level Controls Module. These requirements are in addition to the disclosures published in the Annual Report.

CORE REMUNERATION POLICY

The fundamental principles underlying our remuneration policy which has been approved by the Board of Directors and the shareholders of the bank are:

- The composition of salary, benefits and incentives is designed to align employee and shareholder interests;
- Remuneration determination takes into account both financial and non-financial factors over both the short and longer-term;
- Emphasis is on performance evaluations that reflect individual performance, including adherence to the Bank's risk and compliance policies in determining the total remuneration for a position;
- The Bank has set a 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 awarded purely at the discretion of the Board's Remuneration, Nomination and Corporate Governance Committee (RNC) in recognition of the employees exceptional effort in any given performance period;
- The Bank shall have a well-defined variable pay scheme in place, to support the RNC, should they decide to pay variable pay or bonus in any performance period;
- Variable pay will be determined based on achievement of targets at the Bank level, unit level and individual level;
- Variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal:
 - Performance metrics for applicable business units are risk-adjusted where appropriate;
 - Individual award determinations include consideration of adherence to compliance-related goals.
- The remuneration package of employees in Control and Support functions are designed in such a way that they can function independent of the business units they support. Independence from the business for these employees is assured through:
 - Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviours while remaining competitive with the market;
 - Remuneration decisions are based on their respective functions and not the business units they support;
 - Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function;

- Respective function’s performance as opposed to other business unit’s performance is a key component for calculating individual incentive payments.
- Both qualitative and quantitative measures will be used to evaluate an individual’s performance across the Bank.

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.

The Bank reviews the salaries and benefits periodically, with an objective of being competitive in the market places, based on salary surveys and market information gathered through secondary sources.

REGULATORY ALIGNMENT

The Bank reviewed and revised the remuneration policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants. Key regulatory areas and the Bank’s response are summarized below:

Regulatory Area	Bank’s practice
Governance	The composition of RNC is as required by the CBB remuneration guidelines and is chaired by an Independent Director. The RNC charter has been revised in line with the requirements of the CBB guidelines and the Committee will be responsible for the design, implementation and supervision of the remuneration policy. The aggregate fees / compensation paid to RNC members for 2016 amounted to BD 22,500 (2015: BD 20,000). The Committee utilized the services of an external consultant to redesign and implement the revised remuneration policy aligned to the CBB guidelines on remuneration.
Risk focused remuneration policy	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 is being paid purely at the discretion of the RNC in recognition of the employees exceptional effort in any given performance period. Should the RNC decide to award Variable Pay, it will be determined based on risk adjusted targets set at the Business unit level aggregated to the Bank level. The variable pay for the CEO, senior management in Business units and the Material Risk takers would be higher as compared to the fixed pay subject to achieving the risk adjusted targets both at the business unit and the bank level. For staff in Control and Support functions, the pay mix is structured as more fixed and lesser variable. Further the variable pay, for staff in Control and Support Functions, is based on their units target and individual performance and not linked to bank’s performance.
Capital and Liquidity	The bonus or variable pay computation process is designed in such a way to ensure that it does not impact the Capital and Liquidity as there are validation checks prior to approval of the RNC. The validation checks are the bonus pool as compared to the realized profit, impact on capital adequacy computed as per Basle III guidelines and as compared to the total fixed pay.

Regulatory Area**Bank's practice****Deferral and share linked instruments**

The Bonus for the CEO, his deputies and Material Risk Takers and Approved Persons as per CBB and those whose total remuneration exceeds the regulatory threshold has a deferral element and share - linked payment. Phantom or Shadow shares are offered to such staff.

The deferral arrangements are as follows:

CEO, his deputies and top 5 Executive Management members (in terms of total remuneration) in Business units:

- 40% of the variable pay will be paid in cash at the end of the performance period; and
- The balance 60% will be deferred over a period of 3 years with 10% being cash deferral and 50% being phantom or shadow shares and the entire deferred variable pay will vest equally over a 3 - year period.

For all other employees in Business units and Approved Persons in Control and Support Functions and whose total remuneration exceeds the regulatory threshold:

- 50% of the variable pay will be paid in cash at the end of the performance period; and
- 10% in the form of phantom or shadow shares at the end of the performance period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date.
- The balance 40% will be deferred over a period of 3 years and paid in the form of phantom or shadow shares and vests equally over the 3 year period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date.

Claw back and Malus

The Bank has introduced claw - back and malus clauses whereby the RNC has the right to invoke these clauses under certain pre-defined circumstances where in the bank can claw-back the vested as well as the unvested bonus paid or payable to a staff.

REMUNERATION COMPONENTS

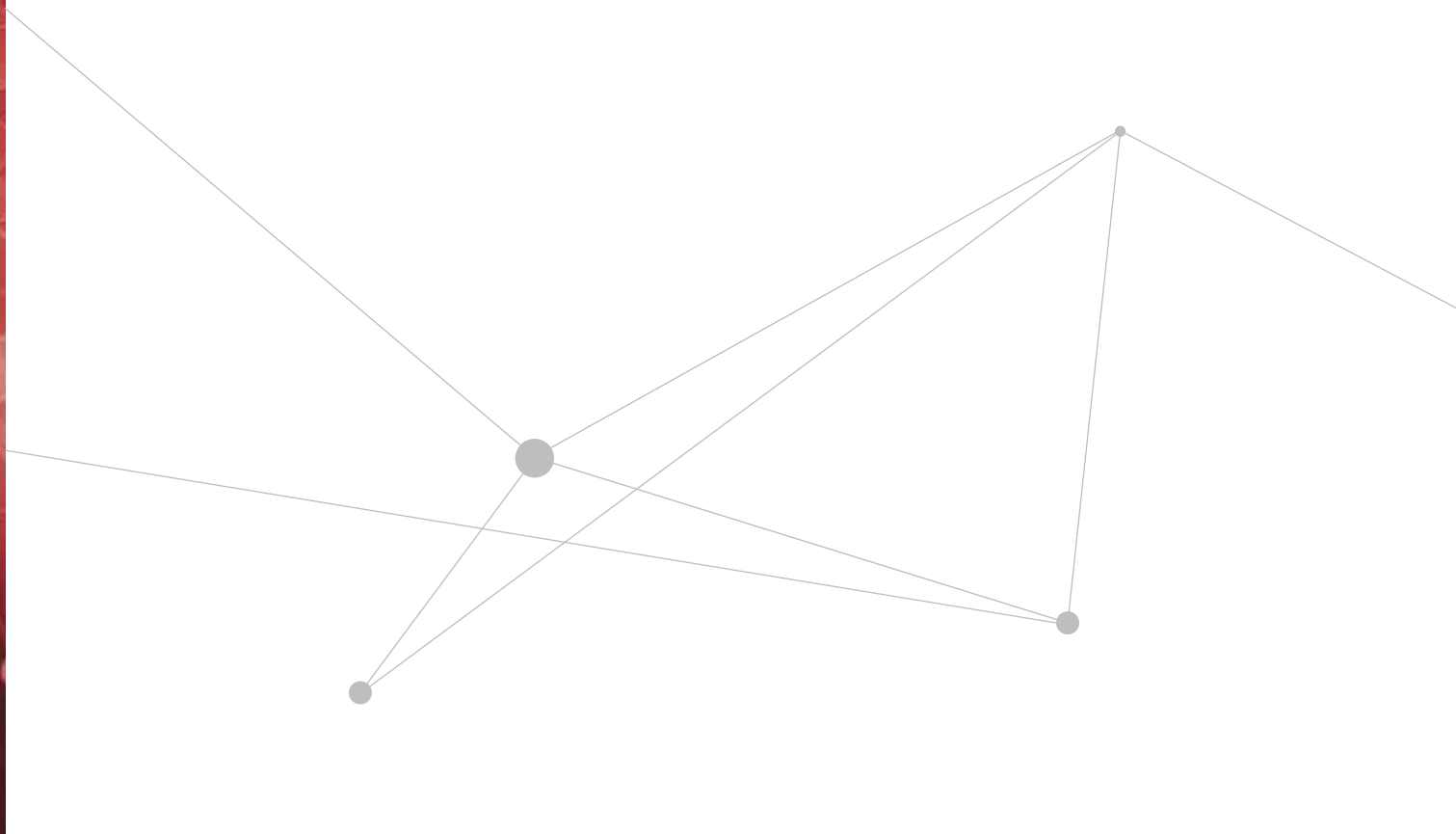
It is the Bank’s intent to have a transparent, structured and comprehensive remuneration policy that covers all types of compensation and benefits provided to employees.

The remuneration policy provides a standardized framework for remuneration covering employees at all levels of the Bank.

Remuneration offered by the Bank shall reflect the Bank’s objective of attracting and retaining the desired level of talent from the banking sector.

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. The compensation package shall comprise of basic salary and benefits and discretionary variable pay. The following table summarizes the total remuneration:

Element of Pay	Salary and Benefits
Rationale	To attract and retain the desired level of talent.
Summary	<p>Reviewed annually.</p> <p>Benchmarked to the local market and the compensation package offered to employee is based on the job content and complexity.</p> <p>The Bank offers a composite fixed pay i.e. it is not split as Basic and Allowances but is paid as one lump sum. The benefits are aligned to the local market practice.</p>



Element of Pay	Variable Pay/Bonus
-----------------------	--------------------

Rationale

To incentivize the achievement of annual targets set at the bank level and at the Business unit levels and thereby also make sure that senior management get substantial portion as variable pay which is linked to performance.

The Variable pay is deferred to ensure that the management's interests are aligned to the shareholder value and to align time horizon of risk.

The Bonus pool is determined based on the bottom up approach i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the bank level.

The basis of payment of bonus would be as follows:

CEO and Senior Management	Base multiple * Bank score * Individual score
Business units	Base multiple * Bank score * Unit score * Individual score
Control & Support units	Base multiple * Unit score * Individual score

Computation of Variable Pay - Business Units

Beginning of the financial year:

Targets are set for the Business units and are aggregated to the Bank level target. In setting targets certain bank wide risk parameters which include capital, liquidity, profit and qualitative measure such as reputation risk and the bank and unit specific KPIs shall be considered. For achieving this target, total Bonus pool is set based on monthly multiples of salary across the bank. The Key feature is that bonus is self-funding and the different levels of targets are not just % increase in profits but profits adjusted for additional bonus. This Bonus Pool is subject to additional checks for its impact on the capital adequacy, as a proportion of net profit and realized profit and as a proportion of the total fixed pay in any given financial year.

At the end of the financial year:

The actual results are evaluated against targets, considering the risk parameters matrix and adjustments if any to the unit score or the banks score as appropriate are made and the bonus pool is revised accordingly.

Summary

The actual bonus pool is approved by the RNC and the individual Bonus payments are as per the scoring matrix.

Computation of Variable Pay – Control and Support Units

The Unit targets as set out and agreed with the RNC in the beginning of each evaluation period will be the base for Variable pay to be paid. Except in the case of bank making a loss, the variable pay for the staff in the Control and Support unit, would be payable based on the Unit targets and the individual performance.

Base Multiples are set for each employee level in each Control and Support unit. The achievement of unit target is assigned a weight of 1 and scored based on the level of actual results achieved.

The individual performance score is based on the individual rating and the score is set to vary between 0 up to a maximum of 1.

The Summary of the Variable pay process is:

Links reward to bank, business unit and individual performance.

Target setting process considers risk parameters which are both quantitative and qualitative such as reputation.

Aligned to time horizon of risk the bonus has a deferral element and a share linkage to align the employee's interest with that of the shareholders.

Bonus can be lesser or nil if the bank or business units do not achieve the risk adjusted targets or make losses. Post risk assessment is carried out to ensure that in case of material losses or realization of less than expected income which can be attributed to employee's actions the claw back or malus as appropriate is invoked.

DETAILS OF REMUNERATION**(a) Board of Directors**

Amounts in BD	2016	2015
Attendance fee and travel expenses	255,178	199,250
Remuneration paid	389,000	73,000
ASBB subsidiaries' Board remuneration, attendance fees and expenses	-	-

(b) Employees

31 December 2016	Amounts in BD thousands						
	No. of staff	Fixed	Variable Upfront		Variable deferred		Total
			Cash	Non-cash	Cash	Non-cash	
Approved person business line	10	1,529	453	98	98	390	2,568
Approved person control & support	13	753	181	15	-	58	1,007
Other material risk takers	11	429	114	3	-	14	560
Other employees - Bahrain operations	297	6,545	866	-	-	-	7,411
Other employees - overseas	2	78	12	-	-	-	90
	333	9,334	1,626	116	98	462	11,636

31 December 2015	Amounts in BD thousands						
	No. of staff	Fixed	Variable Upfront		Variable deferred		Total
			Cash	Non-cash	Cash	Non-cash	
Approved person business line	10	1,657	282	-	71	353	2,363
Approved person control & support	11	665	70	14	-	56	805
Other material risk takers	12	464	16	3	-	13	496
Other employees - Bahrain operations	319	7,714	1,100	-	-	-	8,814
Other employees - overseas	2	78	12	-	-	-	90
	354	10,578	1,480	17	71	422	12,568

Fixed remuneration includes all compensation and benefits that are due to employees based on contractual arrangements.

Severance payments during the year amounted to BD 934,000 (2015: BD 1,490,000) and the highest severance payment during the year amounted to BD 116,000 (2015: BD 94,000).

Included in the above, remuneration received by approved person and material risk takers from SPVs / project companies managed by the Bank amounted to BD 113,000 (2015: BD 94,000).

Deferred Performance Bonus Awards

31 December 2016	Cash BD '000	No. of shares	Shares value BD '000	Others BD '000	Total BD '000
Awards					
Balance as of 1 January 2016	124	-	-	-	124
Awarded during the year - for 2016	98	3,039,474	462	-	560
Awarded during the year for prior year - 2015	-	2,827,136	422	-	422
Awarded during the year for prior year - 2014	-	2,127,228	305	-	305
Exercised / sold / paid during the year	(19)	(425,446)	(63)	-	(82)
Risk Adjustment	-	-	-	-	-
Balance as of 31 December 2016	203	7,568,392	1,126	-	1,329

31 December 2015	Cash BD '000	No. of shares	Shares value BD '000	Others BD '000	Total BD '000
Awards					
Opening balance	53	-	-	-	53
Awarded during the year	71	-	-	-	71
Exercised / sold / paid during the year	-	-	-	-	-
Risk Adjustment	-	-	-	-	-
Closing balance	124	-	-	-	124



A DYNAMIC APPROACH TO REACH EXCELLENCE

Martinique Villas by-the-sea in one of Malaysia's Penang Island's largest seafront residential developments comprised of 73 luxurious waterfront seaside villas, a project jointly owned by Al Salam Bank-Bahrain and two other strategic partners, has been named as the Best Villa Development in Malaysia at the inaugural South East Asia Property Awards 2011.



RISK MANAGEMENT & COMPLIANCE

At Al Salam Bank-Bahrain, our success is largely dependent on how efficiently we identify, measure, control and manage risks. Hence, we view risk management as a core competency from a strategic point of view and the Basel Accord as a catalyst to the successful implementation of the pillars of risk management in line with industry best practice.

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within the Board approved risk appetite and the returns are commensurate with the risks taken. The objective is creating shareholder value through protecting the Group against unforeseen losses, ensuring maximization of earnings potential and opportunities vis-à-vis the Group's risk appetite and ensuring earnings stability.

With this in mind, the Bank has focused its efforts on establishing effective and practical risk management and compliance frameworks taking into consideration local and international best practices, the requirements of the Central Bank of Bahrain and the Basel Accord.

RISK MANAGEMENT FRAMEWORK

The risk management framework defines the risk culture of Al Salam Bank-Bahrain and sets the tone throughout the Group to practice the right risk behavior consistently to ensure that there is always a balance between business profits and risk appetite.

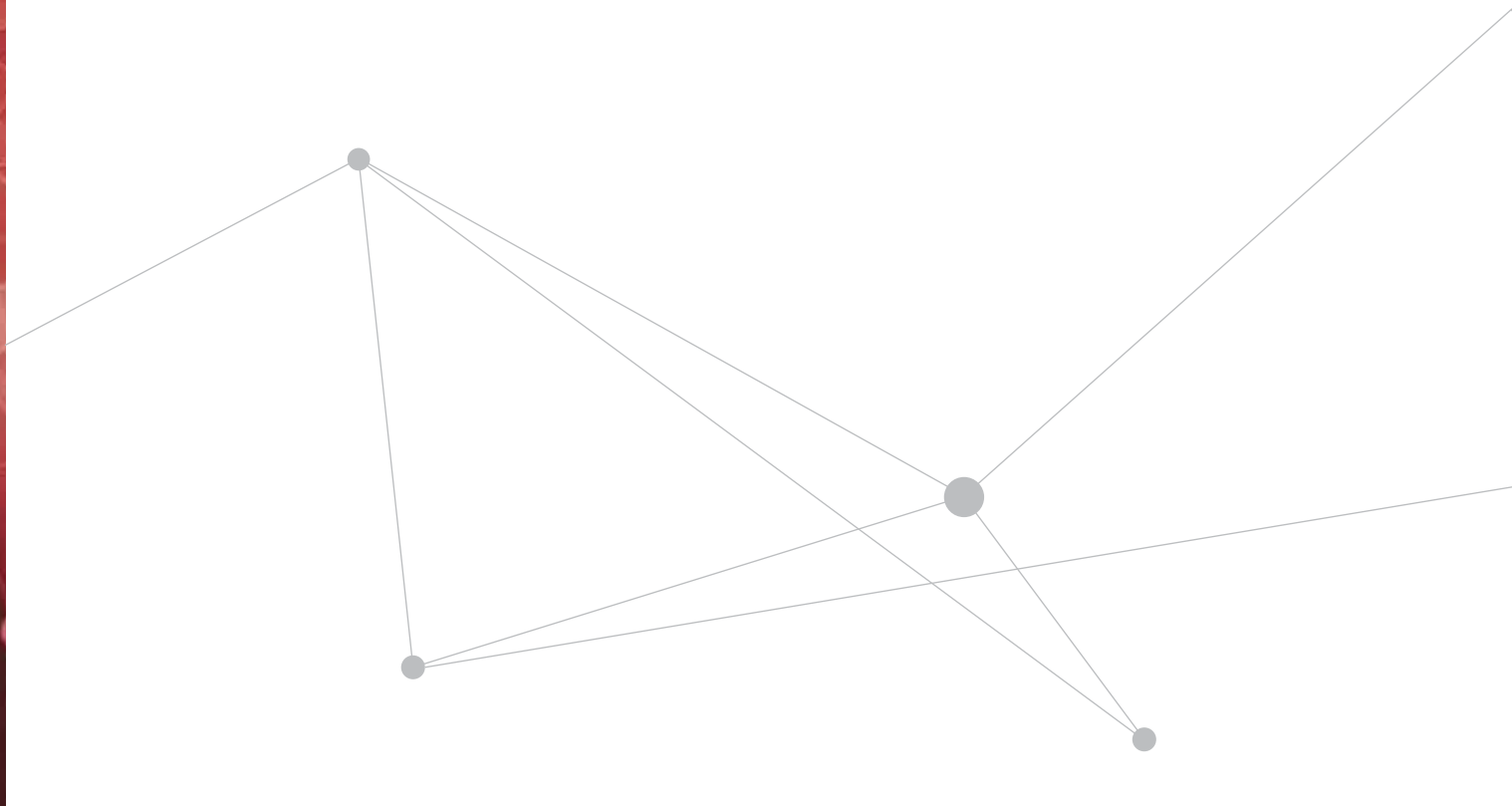
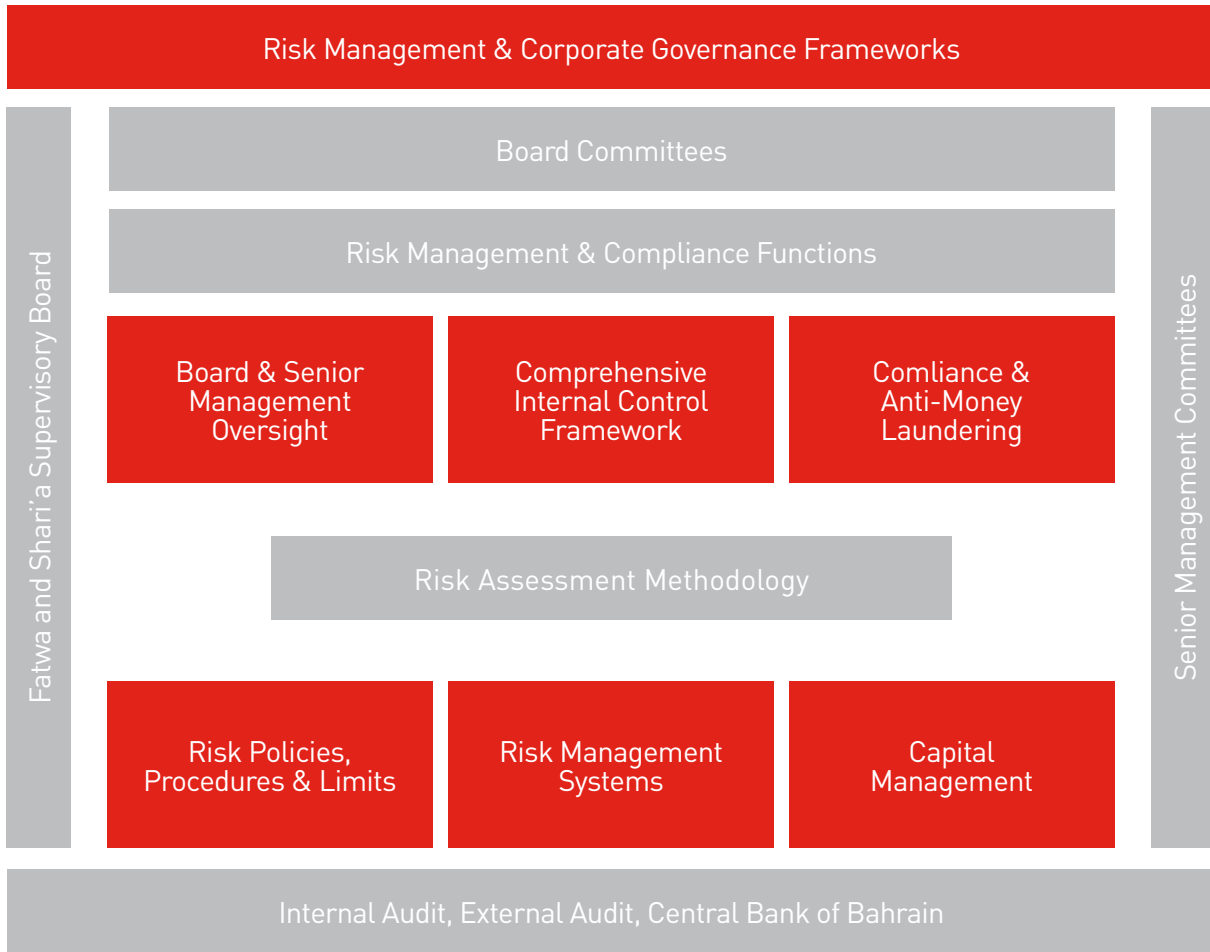
The risk management framework achieves this through the definition of the Group's key risk management principles covering credit, market, operational, information security, strategic and reputation risks. Moreover, the framework further covers the roles and responsibilities of the Board, risk management group and senior management towards risk management. The individual components of the framework capture the risk assessment methodology adopted, risk limits, the risk management information systems and reports, as well as the Group's approach to capital management.

The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain supervision. In addition, business and support groups carry out periodic risk control self-assessments.

As a result, the risk management framework creates an alignment between business and risk management objectives.

CAPITAL MANAGEMENT

The cornerstone of risk management framework is the optimization of risk-reward relationship against the capital available through a focused and well monitored capital management process involving risk management, finance and business groups.



CORPORATE GOVERNANCE

The risk management framework is supported by an efficient Corporate Governance Framework discussed on pages 42 to 57.

RISK OWNERSHIP

The implementation of the risk management framework Group-wide is the responsibility of the Risk Management Department under the supervision of the Group Chief Executive Officer and Board Audit and Risk Committee. Ownership of the various risks across the Group lies with the business and support heads, being the first line of defense, and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework.

Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for mitigating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.

COMPLIANCE & ANTI-MONEY LAUNDERING DEPARTMENT

The Bank has established an independent and dedicated unit to coordinate the implementation of compliance and Anti-Money Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading. In line with its commitment to combat money laundering and terrorist financing, Al Salam Bank- Bahrain through its Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively. The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF recommendations and Basel Committee papers.

All inward and outward electronic transfers are screened against identified sanction lists issued by certain regulatory bodies including the UN Security Council Sanctions Committees and US Department of the Treasury - OFAC, in addition to those designated by the Central Bank of Bahrain.

The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/ or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce and Bahrain Bourse.

The Bank has formulated appropriate policies and have suitably updated its core banking systems for compliance to Foreign Account Tax Compliance Act (FATCA) requirements as required by the regulators.



CORPORATE SOCIAL RESPONSIBILITY

The Bank is committed to fulfilling its obligations as a good corporate citizen in the communities in which it operates. We endeavor to support the Bahrain Government in its efforts to enhance the quality of life of the people of the Kingdom of Bahrain.

Al Salam Bank-Bahrain underscore this commitment to our community by supporting initiatives that add value to the Island's housing, education and health infrastructure, as well as encouraging future economic growth and prosperity through supporting entrepreneurship and the development of our youth.

During the year, charitable donations were made to medical facilities and other charities that care for the less fortunate and supported cultural initiatives in order to preserve the traditions of the Kingdom for generations.



FINANCIAL STATEMENTS

FATWA AND SHARI'A SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS

The Shari'a Fatwa and Supervisory Board ("the Board") has reviewed the Bank's transactions during the year, as well as the Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Statement of Cash Flows and Changes in Owner's Equity for the year ended 31 December 2016. The Board met with the Bank's management and submitted its annual report as follows:

Firstly:

1. The Board has supervised the Banks' activities and transactions during the year, and carried out its role by advising the various departments to adhere to the Shari'a principles and the Board's legal opinions in respect to those activities and transactions. The Board held, for this purpose, several meetings with the Banks' management. The Board hereby confirms the Bank's management keenness to adhere to the Shari'a principles and the Board's legal opinions.
2. The Board has studied the transactions presented to it during the year, and approved the contracts and documents relating to those transactions. The Board responded to questions and queries and issued appropriate decisions and legal opinions relevant to the transactions. The decisions and legal opinions were circulated to the pertinent departments for execution.

Secondly:

The Board reviewed what it requested of documents and files, and received the data which helped it to perform the supervisory and audit work.

Thirdly:

The Board has reviewed samples of contracts and agreements that were presented and requested the Management to adhere to them.

Fourthly: Balance Sheet

The Board has reviewed the Consolidated Statement of Financial Position and appended data and notes and made its observations on them.

In line with the available information and disclosures that are presented by the Banks' management, the consolidated statement of financial position reviewed by the Board represents the Banks' assets, liabilities, equity of investment accountholders, and owner's equity. The accuracy of the information and data provided are the responsibility of the Banks' management.

The Board believes that the consolidated financial statements for the year ended 31 December 2016 along with the distribution of profit to depositors and dividends to shareholders had been prepared in conformity with the Islamic Shari'a regulations.

Fifthly: Zakah

Since the Articles of Association of the Bank does not require the Bank to pay Zakah on behalf of the Shareholders, thus, the Board has calculated the Zakah due on the shareholders in order to inform them, and which is disclosed in the notes to the consolidated financial statements.

Sixthly: Conversion of BMI Bank

The Bank acquired the full stake in BMI Bank with the aim of converting it to a Shari'a-compliant bank. This conversion took effect as of 1st January 2016, and BMI Bank started exercising its business in a Shari'a-compliant manner.

Seventhly: Prohibited Income

According to the Board's decision that the start of calculation and discharge of prohibited income is from the date of complete conversion of BMI Bank which was set at 1st January 2016, transactions that was not converted after this date due to court cases or for any other reason are disclosed in the notes to the consolidated financial statements with the bank's commitment to channel the prohibited income to Charity.

Eighthly:


The Shari'a Board decided to ward off the Shari'a non-compliant income from the transactions executed during the year and have it spent on Charity.

The Board hereby emphasizes that management has the primary responsibility to comply with the Rules and Principles of Shari'a in all activities and transactions of the Bank. The Board confirms that the executed transactions that are submitted by management of the Bank for the Board's review during the year were generally in compliance with Rules and Principles of Shari'a. The management has shown utmost interest and willingness to fully comply with the recommendations of the Board.

Board Members



Dr. Hussein Hamed Hassan
Chairman



Dr. Ali Al Qura Daghi
Board Member



Shaikh Adnan Al Qattan
Board Member



Dr. Mohammed Zoair
Board Member



Dr. Mohammed Arbouna
Board Member & Secretary

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated statement of financial position of Al Salam Bank-Bahrain B.S.C. [“the Bank”] and its subsidiaries [together “the Group”] as of 31 December 2016, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. 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 Bank’s Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions [“AAOIFI”]. 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 the Bank’s Board of Directors, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2016, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other Matters

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the report of the Board of Directors is consistent with the consolidated financial statements.

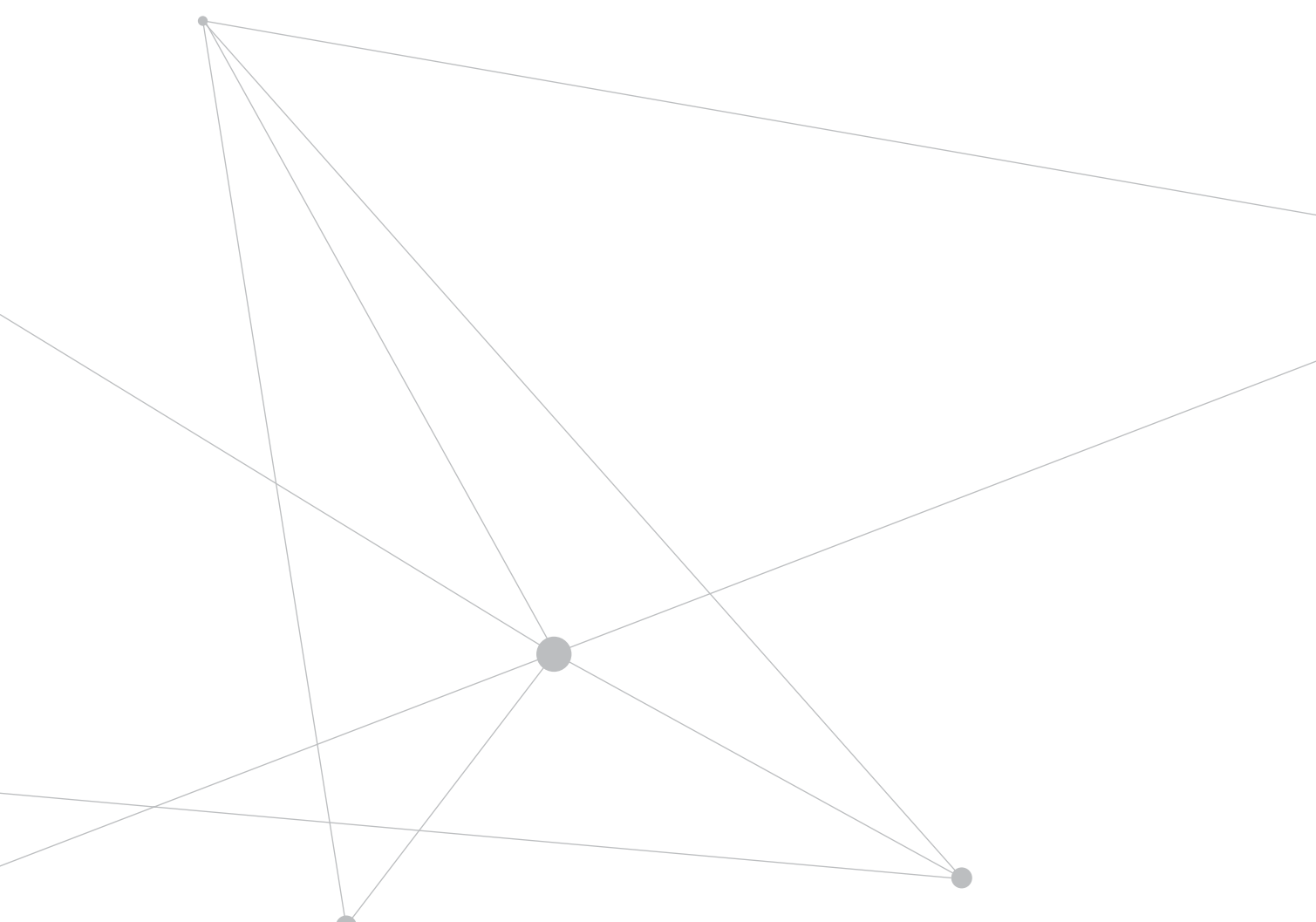
We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst & Young

Partner's Registration No. 115

15 February 2017

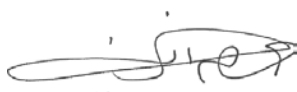
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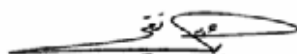
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Note	2016 BD'000	2015 BD'000
ASSETS			
Cash and balances with banks and Central Bank	5	131,990	152,572
Sovereign Sukuk		358,269	350,474
Murabaha and Wakala receivables from banks	6	182,452	103,345
Corporate Sukuk	7	28,934	50,472
Murabaha financing	8	232,556	245,168
Mudaraba financing	9	238,313	239,031
Ijarah Muntahia Bittamleek	10	188,485	155,217
Musharaka		12,304	7,154
Assets under conversion	12	34,465	32,032
Non-trading investments	13	122,073	123,514
Investments in real estate	14	51,863	68,786
Development properties	15	17,781	49,021
Investment in associates	16	10,561	9,994
Other assets	17	25,436	43,892
Goodwill	18	25,971	25,971
Assets classified as held-for-sale	19	19,840	-
TOTAL ASSETS		1,681,293	1,656,643
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Murabaha and Wakala payables to banks		132,032	120,795
Murabaha and Wakala payables to non-banks		723,439	842,570
Current Accounts		279,609	224,366
Liabilities under conversion	12	217	2,327
Term financing	20	91,837	35,986
Other liabilities	21	49,043	48,246
Liabilities relating to assets classified as held-for-sale	19	11,421	-
TOTAL LIABILITIES		1,287,598	1,274,290
EQUITY OF INVESTMENT ACCOUNTHOLDERS	22	68,796	62,351
OWNERS' EQUITY			
Share capital	23	214,093	214,093
Treasury stock	23	(1,646)	-
Reserves and retained earnings		100,213	94,140
Proposed appropriations	23	10,705	10,705
Total equity attributable to shareholders of the Bank		323,365	318,938
Non-controlling interest		1,534	1,064
TOTAL OWNERS' EQUITY		324,899	320,002
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		1,681,293	1,656,643



Shaikha Hessa bint Khalifa Al Khalifa
Chairperson of the Board



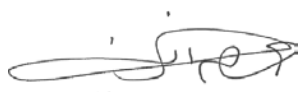
Yousif Taqi
Director & Group CEO

The attached notes 1 to 46 form part of these consolidated financial statements.

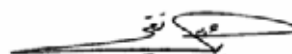
CONSOLIDATED STATEMENT OF INCOME

Year Ended 31 December 2016

	Note	2016 BD'000	2015 BD'000
OPERATING INCOME			
Income from financing contracts	26	38,850	44,530
Income from Sukuk		15,930	17,242
Gains on sale of investments and Sukuk	27	15,153	8,334
Income from investments	28	1,819	3,249
Fair value changes on investments		2,477	399
Dividend income		891	820
Foreign exchange gains		2,146	870
Fees, commission and other income - net	29	7,929	9,184
		85,195	84,628
Profit on murabaha and wakala payables to banks		(1,910)	(931)
Profit on wakala payables to non-banks		(18,046)	(23,805)
Profit on term financing		(2,120)	(839)
Return on equity of investment accountholders before			
Group's share as a Mudarib	22	(216)	(282)
Group's share as a Mudarib	22	97	127
		(119)	(155)
Total operating income		63,000	58,898
OPERATING EXPENSES			
Staff cost		11,523	12,474
Premises and equipment cost		2,021	2,752
Depreciation		3,060	2,254
Other operating expenses		9,454	8,874
Total operating expenses		26,058	26,354
PROFIT BEFORE PROVISIONS AND RESULTS OF ASSOCIATES			
		36,942	32,544
Provision for impairment - net	11	(21,573)	(22,851)
Share of profit from associates	16	727	855
NET PROFIT FOR THE YEAR			
		16,096	10,548
ATTRIBUTABLE TO:			
- Shareholders of the Bank		16,219	12,346
- Non-controlling interest		(123)	(1,798)
		16,096	10,548
Weighted average number of shares (in '000)	25	2,140,820	2,140,931
Basic and diluted earnings per share (fils)		7.6	5.8



Shaikha Hessa bint Khalifa Al Khalifa
Chairperson of the Board



Yousif Taqi
Director & Group CEO

The attached notes 1 to 46 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 BD'000	2015 BD'000
OPERATING ACTIVITIES			
Net profit for the year		16,096	10,548
Adjustments:			
Depreciation		3,060	1,821
Amortisation of premium on Sukuk - net		1,630	1,945
Fair value changes on investments		(2,441)	(481)
Provision for financing and investments - net		21,573	22,851
Share of profit from associates		(727)	(855)
Operating income before changes in operating assets and liabilities		39,191	35,829
Changes in operating assets and liabilities:			
Mandatory reserve with Central Bank		2,727	10,109
Murabaha and Wakala receivables from banks with original maturities of 90 days or more		-	8,976
Murabaha financing		3,756	41,797
Mudaraba financing		182	(4,886)
Ijarah Muntahia Bitteamleek		(32,893)	11,033
Musharaka financing		(5,150)	4,272
Assets under conversion		(8,576)	140,870
Other assets		16,665	(20,187)
Assets and liabilities classified as held-for-sale		(8,419)	-
Murabaha and Wakala payables to banks		11,237	(471)
Wakala from non-banks		(119,131)	(245,716)
Current accounts		46,062	(2,282)
Liabilities under conversion		(2,110)	(64,855)
Other liabilities		248	2,729
Net cash used in operating activities		(56,211)	(82,782)
INVESTING ACTIVITIES			
Net cash flow arising on acquisition of a subsidiary	3	8,723	-
Cash paid on acquisition of a subsidiary	3	(726)	-
Sovereign sukuk		(8,994)	(156,993)
Corporate Sukuk		21,107	22,883
Non-trading investments		807	21,546
Investments in real estate		16,904	(2,088)
Development properties		31,240	10,241
Purchase of premises and equipment		(1,664)	(237)
Net movements in non-controlling interest		120	(6,800)
Net cash from / (used in) investing activities		67,517	(111,448)
FINANCING ACTIVITIES			
Term financing		55,851	15,564
Equity of investment accountholders		6,445	5,994
Dividends paid		(10,705)	(10,705)
Dividends paid to non-controlling interest		-	(566)
Purchase of treasury stock		(1,646)	-
Term financing paid		-	(915)
Net cash from financing activities		49,945	9,372
NET CHANGE IN CASH AND CASH EQUIVALENTS			
		61,251	(184,858)
Cash and cash equivalents at 1 January		223,677	408,535
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		284,928	223,677
Cash and cash equivalents comprise of:			
Cash and other balances with Central Bank of Bahrain	5	72,356	81,448
Balances with other banks	5	30,120	38,884
Murabaha and Wakala receivables from banks with original maturities of less than 90 days		182,452	103,345
		284,928	223,677

The attached notes 1 to 46 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Year ended 31 December 2016

	Attributable to shareholders of the Bank										Amounts in BD '000s		
	Reserves										Total	Non-controlling interest	Total owners' equity
	Share Capital	Treasury stock	Statutory reserve	Retained earnings	Changes in fair value	Real estate fair value reserve	Foreign exchange translation reserve	Share premium reserve	Total reserves	Proposed appropriations			
Balance as of 1 January 2016	214,093	-	13,716	46,803	(148)	24,253	(2,693)	12,209	94,140	10,705	318,938	1,064	320,002
Net profit for the year	-	-	-	16,219	-	-	-	-	16,219	-	16,219	(123)	16,096
Net changes in fair value	-	-	-	-	593	(19)	-	-	574	-	574	-	574
Foreign currency re-translation	-	-	-	-	-	-	(15)	-	(15)	-	(15)	11	(4)
Dividend paid	-	-	-	-	-	-	-	-	-	(10,705)	(10,705)	-	(10,705)
Proposed dividend for the year 2016	-	-	-	(10,705)	-	-	-	-	(10,705)	10,705	-	-	-
Purchase of treasury stock	-	(1,646)	-	-	-	-	-	-	-	-	(1,646)	-	(1,646)
Movements in non-controlling interest due to ASBS acquisition	-	-	-	-	-	-	-	-	-	-	-	582	582
Transfer to statutory reserve	-	-	1,622	(1,622)	-	-	-	-	-	-	-	-	-
Balance at 31 December 2016	214,093	(1,646)	15,338	50,695	445	24,234	(2,708)	12,209	100,213	10,705	323,365	1,534	324,899
Balance as of 1 January 2015	214,093	-	12,481	46,497	1,287	22,704	(1,401)	12,209	93,777	10,705	318,575	10,228	328,803
Net profit for the year	-	-	-	12,346	-	-	-	-	12,346	-	12,346	(1,798)	10,548
Net changes in fair value	-	-	-	-	(1,435)	1,549	-	-	114	-	114	-	114
Foreign currency re-translation	-	-	-	-	-	-	(1,292)	-	(1,292)	-	(1,292)	(180)	(1,472)
Dividend paid	-	-	-	-	-	-	-	-	-	(10,705)	(10,705)	-	(10,705)
Proposed dividend the year 2015	-	-	-	(10,705)	-	-	-	-	(10,705)	10,705	-	-	-
Dividend relating to subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(566)	(566)
Net movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(6,620)	(6,620)
Transfer to statutory reserve	-	-	1,235	(1,235)	-	-	-	-	-	-	-	-	-
Charitable donations	-	-	-	(100)	-	-	-	-	(100)	-	(100)	-	(100)
Balance at 31 December 2015	214,093	-	13,716	46,803	(148)	24,253	(2,693)	12,209	94,140	10,705	318,938	1,064	320,002

The attached notes 1 to 46 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and is registered with Ministry of Industry and Commerce ("MOIC") under Commercial Registration Number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and is operating under Islamic principles, and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Bahrain World Trade Center East Tower, King Faisal Highway, Manama 316, Kingdom of Bahrain.

On 30 March 2014, the Bank acquired 100% stake in BMI Bank B.S.C.(c) ("BMI"), a closed shareholding company in the Kingdom of Bahrain, through exchange of shares. During January 2015, the Shari'a Supervisory Board approved BMI Bank to be an Islamic bank effective 1 January 2015. BMI Bank's operations are in compliance with Shari'a principles effective 1 January 2015. The consolidated financial statements of BMI are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as BMI still holds a conventional retail banking license issued by the CBB.

During the year, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS"), (previously "BMIO") an offshore bank in Seychelles as explained in note 3. ASBS operates under an offshore banking license issued by the Central Bank of Seychelles. All legal formalities in relation to the share allotment have been completed and the process of converting ASBS into fully compliant Islamic operations is in progress.

On 29 November 2016, the shareholders of BMI resolved to approve the transfer of business of BMI to the Bank. The merger notice period will end on 11 April 2017. Subsequent to merger date, the Bank will take over all the rights and assume the obligations of BMI at their carrying values.

The Bank and its subsidiaries operate through ten branches in the Kingdom of Bahrain and Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial instruments as principal / agent, managing Shari'a-compliant financial instruments and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank's ordinary shares are listed in the Bahrain Bourse and Dubai Financial Market.

In addition to BMI and ASBS, the other principal subsidiaries are as follows:

Name of entity	Nature of entity	% holding	
		2016	2015
Al Salam Leasing Two Ltd ("ASL II")	Aircraft under lease	76	76
Auslog Holding Trust	Investment in real estate	90	90

The Bank together with its subsidiaries is referred to as "the Group".

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 15 February 2017.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, fair value through equity and investments in real estates which are held at fair value. These consolidated financial statements incorporate all assets, liabilities and off balance sheet financial instruments held by the Group.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Group, rounded to the nearest thousand [BD '000], except where otherwise indicated.

2.1.a Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law. Matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards ("IFRS").

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 36.

2.1.b Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2016. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity with the objective of obtaining benefits from its operations. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Share of minority stakeholder's interest (non-controlling interest) represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within owners' equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the parent.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgments and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity.

2 ACCOUNTING POLICIES (continued)
2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Classification of investments

Management decides upon acquisition of an investment whether it should be classified as fair value through profit or loss, fair value through equity or held-to-maturity.

Estimation uncertainty

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

Impairment of goodwill

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by management, extrapolated for five years projection using nominal projected Gross Domestic Product growth rate.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Collective impairment provisions on financial contracts

In addition to specific provisions against individually significant financial contracts, the Group also considers the need for a collective impairment provision against financial contracts which although have not been specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the status, as determined by the Group, of the financial contracts since they were granted (or acquired). The amount of the provision is based on the historical loss pattern for other contracts within each grade and is adjusted to reflect current economic changes.

Impairment losses on financial contracts

The Group reviews its financial contracts on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. During the last interim period of the year, the Group re-assessed its previous estimates and made provisions for financing facilities and other assets.

Impairment of fair value through equity investments

The Group treats fair value through equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of significant or prolonged decline and other objective evidence involves judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the present value calculation factors for unquoted equities.

2 ACCOUNTING POLICIES (continued)
2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Valuation of unquoted private equity and real estate investments

Valuation of above investments involves judgment and is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

Going concern

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

Control over special purpose entities

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

2.3 SIGNIFICANT ACCOUNTING POLICIES

2.3.1 New standards, interpretations and amendments

These consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015, except for amendments to FAS 27 which have been issued by AAOIFI and are effective 1 January 2016.

Amendments to FAS 27 – Equity method in separate financial statements

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

The Group has not early adapted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.3.2 Summary of significant accounting policies

a) Financial contracts

Financial contracts consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, Murabaha financing (net of deferred profit), Mudaraba, Musharaka and

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)
	a) Financial contracts (continued)

Ijarah Muntahia Bittamleek. Balances relating to these contracts are stated net of provisions for impairment.

b) Sovereign Sukuk and Corporate Sukuk

These are quoted / unquoted securities and are classified as investments at amortised cost in accordance with FAS 25 issued by AAOIFI.

c) Murabaha receivables

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract, the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favour of the Seller to be binding.

Murabaha receivables are stated at cost, net of deferred profits and / or provision for impairment, if any, and amounts settled.

d) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide a certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Mudaraba financing are recognized at fair value of the Mudaraba assets net of provision for impairment, if any, and Mudaraba capital amounts settled. If the valuation of the Mudaraba assets results in difference between fair value and book value, such difference is recognized as profit or loss to the Group.

e) Ijarah Muntahia Bittamleek

Ijara Muntahia Bittamleek is an agreement whereby the Group (as Lessor) leases an asset to the customer (as Lessee) after purchasing / acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease against certain rental payments for a specific lease term / periods, payable on fixed or variable rental basis.

The Ijara agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The customer (Lessee) provides the Group (Lessor) with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued) e) Ijarah Muntahia Bittamleek (continued)

“The Group (Lessor) retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the customer (Lessee) under the Ijara agreement, the Group (Lessor) will sell the leased asset to the customer (Lessee) for a nominal value based on sale undertaking given by the Group (Lessor). Leased assets are usually residential properties, commercial real estate or aircrafts.”

Depreciation is provided on a systematic basis on all Ijarah Muntahia Bittamleek assets other than land (which is deemed to have an indefinite useful life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

f) Musharaka

Musharaka is used to provide venture capital or project finance. The Group and customer contribute towards the capital of the Musharaka. Usually a special purpose company or a partnership is established as a vehicle to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

Musharaka is stated at cost, less any impairment.

g) Assets and liabilities under conversion

Assets under conversion:

Due from Banks and financial institutions

At amortised cost less any amounts written off and provision for impairment, if any.

Loans and advances

At amortised cost less any amounts written off and provision for impairment, if any.

Non-trading investments

These are classified as fair value through equity investments and are fair valued based on criteria set out in Note 2.3.2 h. Any changes in fair values subsequent to acquisition date are recognized in total comprehensive income (note 30).

Liabilities under conversion:

These are remeasured at amortised cost.

h) Non-trading investments

These are classified as fair value through equity or fair value through profit or loss.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Acquisition cost relating to investments designated as fair value through profit or loss is charged to consolidated income statement.

Following the initial recognition of investments, the subsequent period-end reporting values are determined as follows:

Fair value through equity investments

After initial recognition, equity investments which are classified as investments at fair value through equity are disclosed as “Fair value through equity investments”. These are normally remeasured at fair value, unless the fair value cannot be reliably determined, in which case they are measured at cost less impairment, if any. Fair value changes are reported in equity

2 ACCOUNTING POLICIES (continued)
2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2 Summary of significant accounting policies (continued)
h) Non-trading investments (continued)

until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as “changes in fair value” within equity, is included in the consolidated income statement.

Impairment losses on fair value through equity Investments are not reversed through the consolidated income statement and increases in their fair value after impairment are recognised directly in owners’ equity.

Investments carried at fair value through profit or loss

Investments in this category are designated as such on initial recognition if these investments are evaluated on a fair value basis in accordance with the Group’s risk management policy and its investment strategy. These include all private equity investments including those in joint ventures and associates which are not strategic in nature.

Investments at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded as “Fair value changes on Investments” in the consolidated income statement. Gain on sale of these investments is included in “Gain on sale of Investments and Sukuk” in the consolidated income statement. Income earned on these investments is included in “Income from Investments” in the consolidated income statement.

i) Investments in associates

The Group’s investments in associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other mode.

Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group’s share of net assets of the associate. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group’s share of results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associate and the Group are identical and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

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

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)
	i) Investments in associates (continued)

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in associates.

Foreign exchange translation gains / losses arising out of the above investment in the associate are included in the consolidated statement of changes in equity.

j) Investments in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estate. In accordance with FAS 26, the investment in real estate is initially recognized at cost and subsequently measured based on intention whether the investments in real estate is held-for-use or held for sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model any unrealized gains are recognized directly in owners' equity. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognized in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognized in the consolidated income statement in a previous financial period, the unrealized gains relating to the current financial period is recognized to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell. Investments in real estate carried at fair value shall continue to be measured at fair value.

k) Development properties

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost or net realisable value.

l) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer equipment	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	4 to 5 years
- Leasehold improvements	Over the lease period
- Computer software	10 years

m) Subsidiaries acquired with a view to sell

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "Assets held-for-sale" and "Liabilities relating to assets classified as held-for-sale". Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)

n) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognizes the resulting gain or loss, if any, in the consolidated income statement or total comprehensive income as appropriate.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill.

Investments acquired but do not meet the definition of business combination are recorded as financing assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)
	n) Business combinations and goodwill (continued)

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill is determined by assessing the recoverable amount of the cash generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

o) Impairment and uncollectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, impairment loss, if any, is recognised in the consolidated income statement.

Impairment is determined as follows:

- (i) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;
- (ii) for assets carried at fair value, impairment is the difference between cost and fair value; and
- (iii) for assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial asset.

For fair value through equity investments, reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

p) Offsetting

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

q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

r) Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees. Entitlement to these benefits is based upon the employees' final salary and length of service, subject to

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)
	r) Employees' end of service benefits (continued)

completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For Bahraini employees, the Group makes contributions to Social Insurance Organisation calculated as a certain percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

s) Revenue recognition

Murabaha receivables

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a straight-line basis over the deferred period. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments of Murabaha installments are overdue by 90 days, whichever is earlier.

Sukuk

Income on Sukuk is recognized on a time-proportionate basis based on underlying rate of return of the respective type of sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments are overdue by 90 days, whichever is earlier.

Mudaraba

Income on Mudaraba transactions are recognised when the right to receive payment is established or these are declared by the Mudarib, whichever is earlier. In case of losses in Mudaraba, the Group's share of loss is recognised to the extent that such losses are being deducted from its share of the Mudaraba capital.

Dividend

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

Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek income is recognised on a time-proportionate basis over the lease term. Income related to non-performing Ijarah Muntahia Bittamleek is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Musharaka

Income on Musharaka is recognized when the right to receive payment is established or on distributions. In case of losses in Musharaka, the Group's share of loss is recognized to the extent that such losses are being deducted from its share of the Musharaka capital.

Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its' customers. Fee income can be divided into the following main categories:

Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)
	s) Revenue recognition (continued)

Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time. Other fee income is recognised when services are rendered.

t) Fair value of financial assets

For investments that are traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another instrument, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For assets having fixed or determinable payments, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for instruments with similar terms and risk characteristics.

u) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "fair value through equity" and investment in associates are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through profit or loss" are directly recognised in the consolidated income statement.

v) Translation of foreign operations

Assets and liabilities of foreign subsidiaries whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting period. Any exchange differences arising on translation are included in "foreign exchange translation reserve" forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated income statement.

w) Repossessed assets

Repossessed assets are assets acquired in settlement of dues. These assets are carried at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'. The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)
	w) Repossessed assets (continued)

operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value or fair value less cost to sell for non-financial assets at the repossession date in line with the Group's policy.

x) Trade and settlement date accounting

Purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

y) Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

z) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same source on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

aa) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position.

ab) Dividend on ordinary shares

Dividend on ordinary shares is recognised as a liability and deducted from equity when it is approved by the Group's shareholders. Dividend for the year that is approved after the reporting date is included in the equity and is disclosed as an event after the balance sheet date.

ac) Equity of investment account holders

All equity of investment account holders are carried at cost plus profit and related reserves less amounts settled.

Share of income for equity of investment account holder is calculated based on the income generated by the assets funded by such investment accounts after deducting Mudarib share (as Mudarib and Rabalmal). Operating expenses are charged to shareholders' funds and are not included in the calculation.

The basis applied by the Group in arriving at the equity of investment account holders' share of income is total investment income less shareholders' income. Portion of the income generated from equity of investment account holders is transferred to profit equalization reserve, mudarib share and investment risk reserve and the remaining is distributed to the equity of investment account holders.

2	ACCOUNTING POLICIES (continued)
2.3	SIGNIFICANT ACCOUNTING POLICIES (continued)
2.3.2	Summary of significant accounting policies (continued)

ad) Treasury Stock

Own equity instruments that are reacquired, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium in consolidated statement of changes in equity.

ae) Zakah

In accordance with the Articles of Association of the Group, the responsibility to pay Zakah is on the shareholders of the Bank.

af) Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with the CBB and Murabaha receivables from banks with original maturities of less than 90 days.

ag) Wakala payables

The Group accepts funds from banks and customers under Wakala arrangement in which a return is payable to customers as agreed in the agreement. There is no restriction on the Group for the use of funds received under Wakala agreement.

ah) Jointly financed and self financed

Investments, financing and receivables that are jointly funded by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are funded solely by the Group are classified under "self financed".

The equity of investment accountholders is used to finance the assets of the Group as appropriate.

ai) Investment risk reserve

This is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to compensate future losses for investment account holders.

aj) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

ak) Profit on Murabaha and Wakala payables to banks and non-banks

Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

3 BUSINESS COMBINATION

The Group had an existing ownership of 50% in BMI Offshore Bank Seychelles Limited (“BMIO”) and it was accounted for as an investment in joint venture. Subsequent to the approval of the Bank’s Board of Directors, the Group increased its stake in BMIO from 50% to 70% on 27 June 2016. On 27 June 2016, the share allotment was completed and a total of 3,384 fully paid up shares were allotted out of 4,834 shares representing 70% of the share capital which included a portion of shares earlier held by the Group (1,450 shares). Also, BMIO rebranded its name to Al Salam Bank-Seychelles (“ASBS”).

The fair value of the assets and liabilities are as follows:

	2016 BD '000
ASSETS	
Cash and cash equivalents	13,816
Loans and advances	2,566
Other assets	70
	16,452
LESS:LIABILITIES	
Deposits from customers	(13,633)
Other liabilities	(879)
	(14,512)
NET ASSETS	1,940
GOODWILL ARISING ON ACQUISITION	
Total consideration for acquisition*	1,358
Fair value of non-controlling interest at the dates of acquisition	582
	1,940
Fair value of net asset identified at the date of acquisition	1,940
GOODWILL	-
NET CASH FLOW ARISING ON ACQUISITION	8,723

* This includes a cash consideration of BD 726 thousands.

From the date of acquisition, ASBS has contributed BD 176 thousands to the net profit of the Group. If the business combination had occurred at the beginning of the year, the operating income and net profit of the Group for 2016 would have been BD 424 thousands and BD 180 thousands respectively.

4 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	31 DECEMBER 2016			
	<i>At fair value through profit or loss</i>	<i>At fair value through equity</i>	<i>At amortised cost / others</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
ASSETS				
Cash and balances with banks and Central Bank	-	-	131,990	131,990
Sovereign Sukuk	-	-	358,269	358,269
Murabaha and Wakala receivables from banks	-	-	182,452	182,452
Corporate Sukuk	-	-	28,934	28,934
Murabaha financing	-	-	232,556	232,556
Mudaraba financing	-	-	238,313	238,313
Ijarah Muntahia Bittamleek	-	-	188,485	188,485
Musharaka	-	-	12,304	12,304
Assets under conversion	-	41	34,424	34,465
Non-trading investments	115,403	6,670	-	122,073
Investments in real estate	-	51,863	-	51,863
Development properties	-	-	17,781	17,781
Investment in associates	-	-	10,561	10,561
Other assets	-	1,449	23,987	25,436
Goodwill	-	-	25,971	25,971
Assets held-for-sale	-	19,636	204	19,840
	115,403	79,659	1,486,231	1,681,293
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	132,032	132,032
Murabaha and Wakala payables to non-banks	-	-	723,439	723,439
Current accounts	-	-	279,609	279,609
Liabilities under conversion	-	-	217	217
Term financing	-	-	91,837	91,837
Other liabilities	-	-	49,043	49,043
Equity of investment accountholders	-	-	68,796	68,796
Liabilities relating to assets classified as held-for-sale	-	-	11,421	11,421
	-	-	1,356,394	1,356,394

4 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

	31 DECEMBER 2015			
	<i>At fair value through profit or loss BD '000</i>	<i>At fair value through equity BD '000</i>	<i>At amortised cost / others BD '000</i>	<i>Total BD '000</i>
ASSETS				
Cash and balances with banks and Central Bank	-	-	152,572	152,572
Sovereign Sukuk	-	-	350,474	350,474
Murabaha and Wakala receivables from banks	-	-	103,345	103,345
Corporate Sukuk	-	-	50,472	50,472
Murabaha financing	-	-	245,168	245,168
Mudaraba financing	-	-	239,031	239,031
Ijarah Muntahia Bittamleek	-	-	155,217	155,217
Musharaka	-	-	7,154	7,154
Assets under conversion	-	41	31,991	32,032
Non-trading investments	115,008	8,506	-	123,514
Investments in real estate	-	68,786	-	68,786
Development properties	-	-	49,021	49,021
Investment in associates	-	-	9,994	9,994
Other assets	-	2,037	41,855	43,892
Goodwill	-	-	25,971	25,971
	115,008	79,370	1,462,265	1,656,643
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	120,795	120,795
Murabaha and Wakala payables to non-banks	-	-	842,570	842,570
Current accounts	-	-	224,366	224,366
Liabilities under conversion	-	-	2,327	2,327
Term financing	-	-	35,986	35,986
Other liabilities	-	-	48,246	48,246
Equity of investment accountholders	-	-	62,351	62,351
	-	-	1,336,641	1,336,641

5 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2016 BD '000	2015 BD '000
Mandatory reserve with Central Bank*	29,514	32,240
Cash and other balances with Central Bank	72,356	81,448
Balances with other Banks	30,120	38,884
	131,990	152,572

* This balance is not available for use in the day-to-day operations of the Group.

6 MURABAHA AND WAKALA RECEIVABLES FROM BANKS

Jointly financed assets	68,796	62,351
Self financed assets	113,656	40,994
	182,452	103,345

At 31 December 2016, deferred profits on Murabaha receivables from banks amounted to BD 60 thousands (2015: BD 12 thousands).

The entire exposure of Murabaha and Wakala receivables from Banks at 31 December 2016 and 31 December 2015 are with financial entities based in GCC countries.

7 CORPORATE SUKUK

	2016 BD '000	2015 BD '000
Investment grade	17,865	31,833
Non-investment grade	3,843	10,330
Un-rated Sukuk	7,226	8,309
	28,934	50,472

8 MURABAHA FINANCING

Murabaha financing - gross	255,326	254,169
Less:		
Specific provision	(17,638)	(4,452)
Collective provision	(5,132)	(4,549)
	232,556	245,168

Murabaha financing is reported net of deferred profits of BD 39,249 thousands (2015: BD 50,310 thousands).

9 MUDARABA FINANCING

	2016 BD '000	2015 BD '000
Mudaraba financing - gross	248,652	248,354
Less:		
Specific provision	(10,339)	(9,323)
	238,313	239,031

10 IJARAH MUNTAHIA BITTAMLEEK

This represents net investments in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The majority of the lease documentations provide that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all its obligations under the lease agreement.

	2016 BD '000	2015 BD '000
Movements in Ijarah Muntahia Bittamleek assets are as follows:		
At 1 January	155,217	141,052
Additions during the year - net	38,731	48,777
Ijarah assets depreciation	(10,568)	(15,939)
Transfer from / (to) other assets*	14,400	(17,729)
Specific provision	(8,795)	(444)
Collective provision	(500)	(500)
At 31 December	188,485	155,217

* On termination of lease, this asset was transferred to other assets. On release, the asset was reclassified as Ijarah.

	2016 BD '000	2015 BD '000
The future minimum lease receivable in aggregate are as follows:		
Due within one year	4,304	10,494
Due in one to five years	79,273	62,881
Due after five years	104,908	81,842
	188,485	155,217

Ijarah Muntahia Bittamleek is divided into the following asset classes:

Land and buildings	181,685	155,217
Aircraft	6,800	-
	188,485	155,217

The accumulated depreciation on Ijarah Muntahia Bittamleek assets amounted to BD 40,403 thousands (2015: BD 31,236 thousands).

12 ASSETS AND LIABILITIES UNDER CONVERSION

These represent interest bearing non-Shari'a compliant assets and liabilities of BMI and ASBS. These assets and liabilities have been reported as separate line items on the face of the consolidated statement of financial position. The details of the assets and liabilities under conversion are as follows:

	2016 BD '000	2015 BD '000
Assets		
Loans and advances*	34,425	31,437
Non-trading investments - debt	24	24
Non-trading investment - fair value through equity **	16	16
Other assets	-	555
	34,465	32,032
Liabilities		
Other liabilities	217	2,327
	217	2,327

* Increase of loans and advances arose from acquisition of a new subsidiary, ASBS Seychelles, during the year (note 3). The Bank carries a specific provision against these loans and advances amounting to BD 4,031 thousands (2015: BD 2,503 thousands).

** The above fair value through equity investment is classified as Level 3 (2015: Level 3) in the fair value hierarchy (note 13). During the year, there were no movements in the fair value of this investment.

13 NON-TRADING INVESTMENTS

Non-trading investments are classified as fair value through equity or fair value through profit or loss.

Fair value hierarchy

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 that have a significant effect on the recorded fair value are observable, either directly or indirectly; or

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

13 NON-TRADING INVESTMENTS (continued)

The following table shows an analysis of the financial instruments carried at fair value in the consolidated statement of financial position:

31 December 2016	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Financial assets at fair value through profit or loss	7,755	5,011	102,637	115,403
Financial assets at fair value through equity	3,968	-	2,702	6,670
	11,723	5,011	105,339	122,073

31 December 2015	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Financial assets at fair value through profit or loss	7,646	4,702	102,660	115,008
Financial assets at fair value through equity	4,774	-	3,732	8,506
	12,420	4,702	106,392	123,514

During the year ended 31 December 2016, an amount of BD 1,793 (2015: BD Nil) was transferred from Level 1 to Level 3 fair value measurements.

The movements in fair value of non-trading investments classified in level 3 of the fair value hierarchy are as follows:

	2016 BD '000	2015 BD '000
At 1 January	106,392	121,890
Additions during the year	414	-
Fair value changes	(1,109)	(2,426)
Repayments during the year	-	(408)
Disposals during the year	(2,151)	(12,664)
Transfer from level 1 to level 3	1,793	-
At 31 December	105,339	106,392

14 INVESTMENTS IN REAL ESTATE

Land	48,930	49,759
Buildings	2,933	19,027
	51,863	68,786

14 INVESTMENTS IN REAL ESTATE (continued)

The movements in fair value of investments in real estate classified in level 3 of the fair value hierarchy are as follows:

	2016 BD '000	2015 BD '000
At 1 January	68,786	65,149
Additions during the year	2,732	3,836
Transfer to assets classified as held-for-sale	(19,636)	-
Fair value changes	(19)	(199)
At 31 December	51,863	68,786

15 DEVELOPMENT PROPERTIES

These represent properties acquired and held through investment vehicles exclusively for development in the Kingdom of Bahrain and the United Kingdom. The carrying amounts include land price and related construction costs.

16 INVESTMENT IN ASSOCIATES

The Group has a 14.4% (2015: 14.4%) stake in Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. The Bank has representation on the board of ASBA through which the Bank has a significant influence on ASBA.

The Group has a 20.94% (2015: 20.94%) stake in Gulf African Bank ("GAB"), a private Islamic bank incorporated in Kenya.

The Group's interest in ASBA and GAB is accounted for using the equity method in the consolidated financial statements.

The following table illustrates summarised financial information of Group's investments in ASBA and GAB:

	2016 BD '000	2015 BD '000
Associates' statement of financial position:		
Total assets	280,648	234,168
Total liabilities	212,315	169,231
Net assets	68,333	64,937
Total revenue	20,157	20,484
Total expenses	14,772	16,411
Net profit for the year	5,385	4,073
Group's share of associates' net profit	727	855

17 OTHER ASSETS

	2016 BD '000	2015 BD '000
Assets under conversion (a)		
Non-trading-investments - debt	236	236
Non-trading investments - fair value through equity (b)	1,449	2,036
	1,685	2,272
Repossessed assets	4,863	4,007
Profit receivable	9,922	7,995
Premises and equipment	2,067	3,910
Prepayments	1,874	1,066
Rental receivable on Ijarah Muntahia Bittamleek assets	449	685
Other receivables and advances (c)	4,576	15,469
Aircraft [net of impairment of BD 7,600 thousands] (d)	-	8,488
	25,436	43,892

(a) These represent non-Shari'a compliant assets resulted from the acquisition of Bahraini Saudi Bank B.S.C. ("ex-BSB").

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy (note 12). Movements in fair value through equity investments are as follows:

	2016 BD '000	2015 BD '000
At 1 January	2,036	2,412
Fair value changes	-	188
Repayments during the year	(82)	(69)
Disposals during the year	(505)	(334)
Provision	-	(161)
	1,449	2,036

(c) This includes BD 1,912 thousands (2015: 10,865 thousands) relating to receivable from sale of investments and advances to contractors. It also includes a specific provision against credit card receivables amounting to BD 300 thousands (2015: 192 thousands).

(d) The lease of aircraft was terminated during 2015 and the aircraft was transferred to Ijarah Muntahia Bittamleek during 2016 on release.

18 GOODWILL

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

18 GOODWILL (continued)

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial forecasts approved by management, extrapolated for five years projection using terminal growth rate of 3% and discount rate of 11%.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Management performed a sensitivity analysis to assess the changes to key assumptions that could cause the carrying value of the CGU to exceed its recoverable amount. The discount rate and earnings are considered as key assumptions. A 0.5% change in the discount rate and a 0.25% change in earnings would impact the carrying value of goodwill by BD 1.5 million and BD 6.7 million respectively.

19 ASSETS AND LIABILITIES CLASSIFIED AS HELD-FOR-SALE

The Group is in the process of selling the underling investment properties of Auslog Holding Trust to a third party and accordingly, it has been classified as held-for-sale. The below table illustrates the summarised consolidated financial information of Auslog Holding Trust:

Consolidated statement of financial position	2016 BD '000
Assets	
Cash and bank balances	139
Investment properties*	19,636
Other assets	65
Assets classified as held-for-sale	19,840
Liabilities	
Term financing*	11,332
Other liabilities	89
Liabilities relating to assets classified as held-for-sale	11,421

* The property classified as held-for-sale is pledged against the term financings of BD 11,332 thousands.

20 TERM FINANCING

	<i>Collateral type</i>	<i>Facility amount</i>		<i>Collateral carrying value</i>	
		2016 BD '000	2015 BD '000	2016 BD '000	2015 BD '000
Term financing 1	Corporate and Sovereign Sukuk	16,965	16,965	38,515	40,710
Term financing 2	Sovereign Sukuk	37,700	-	72,912	-
Term financing 3	Sovereign Sukuk	30,180	-	52,918	-
Term financing 4	Aircraft	6,992	7,531	7,434	8,488
Term financing 5	Real estate	-	11,490	-	19,027
		91,837	35,986	171,779	68,225

21 OTHER LIABILITIES

	2016 BD '000	2015 BD '000
Accounts payable and accruals	34,218	19,623
Profit payable	5,917	5,474
End of service benefits and other employee related accruals	4,144	6,387
Dividend payable	3,988	3,728
Advances received from customers for sale of properties	776	13,034
	49,043	48,246

22 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment accountholders funds are commingled with the Group's funds and used to fund / invest in asset contracts and no priority is granted to any party for the purpose of investments and distribution of profits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested taking into consideration the relevant weightage, if any. The Mudarib's share of profit ranges between 40% and 50%. Operating expenses are charged to shareholders' funds and not included in the calculation.

The balances consists of savings accounts of BD 50,944 thousands (2015: BD 49,093 thousands) and call accounts of BD 17,852 thousands (2015: BD 13,258 thousands).

The average profit rate attributed to the equity of investment accountholders in 2016 was 0.27% (2015: 0.21%).

23 SHARE CAPITAL

	2016 BD '000	2015 BD '000
Authorised:		
2,500,000,000 ordinary shares (2015: 2,500,000,000 shares) of BD 0.100 each	250,000	250,000
Issued and fully paid: (BD 0.100 per share)		
Number of shares 2,140,930,752 (2015: 2,140,930,752)	214,093	214,093

The Group purchased 15,032,732 shares of the Bank (2015: Nil) during the year which are held as treasury stock as of 31 December 2016.

23.1 PROPOSED APPROPRIATION

The Board of Directors in its meeting on 15 February 2016 has resolved to recommend a cash dividend of 5 fils per share or 5% (2015: 5 fils or 5%) of the paid-up capital subject to approval at the forthcoming annual general meeting.

24 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law followed by the approval of the CBB.

25 EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

26 INCOME FROM FINANCING CONTRACTS

	2016 BD '000	2015 BD '000
Murabaha financing	12,870	11,603
Mudaraba financing	13,069	13,104
Ijarah Muntahia Bittamleek*	10,030	10,569
Musharaka	591	558
Murabaha and Wakala receivables from banks	1,415	896
Income from assets under conversion **	875	7,800
	38,850	44,530

* Depreciation on Ijarah Muntahia Bitamleek amounted to BD 10,568 thousands (2015: BD 15,939 thousands).

** The Bank's shareholders are advised, but not obliged, to contribute this income to charity at their discretion.

27 GAINS ON SALE OF INVESTMENTS AND SUKUK

	2016 BD '000	2015 BD '000
Gain on sale of:		
Development properties*	12,130	2,469
Fair value through profit or loss investments	2,611	265
Sukuk	14	905
Available-for-sale investments	-	3,555
Other investments	398	1,140
	15,153	8,334

* Sales: BD 49,131 thousands (2015: BD 17,203 thousands) and cost: BD 37,001 thousands (14,734 2015 thousands).

28 INCOME FROM INVESTMENTS

	2016 BD '000	2015 BD '000
Rental income from investments in real estate	1,947	1,687
Income from assets classified as held-for-sale	-	2,290
Loss from Fair value through profit or loss investments	(128)	(728)
	1,819	3,249

29 FEES, COMMISSION AND OTHER INCOME - NET

	2016 BD '000	2015 BD '000
Financing and transaction related fees and commission	5,953	4,336
Fiduciary and other fees	225	387
Other income	1,751	4,461
	7,929	9,184

30 TOTAL COMPREHENSIVE INCOME

	2016 BD '000	2015 BD '000
Net profit for the year	16,096	10,548
<i>Items to be reclassified to consolidated income statement in subsequent periods:</i>		
Unrealized gain reclassified to consolidated income statement on disposal of fair value through equity investments	(82)	(965)
Unrealised gain / (loss) on fair value through equity investments	675	(470)
Changes in fair value of investments in real estate	(19)	1,549
Foreign currency re-translation	(4)	(1,472)
Other comprehensive income / (loss) for the year	570	(1,358)
Total comprehensive income for the year	16,666	9,190
Attributable to:		
Equity holders of the Bank	16,778	11,168
Non-controlling interest	(112)	(1,978)
	16,666	9,190

31 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were approved by the Board of Directors. All the loans and advances to related parties are performing and are free of any provision for possible credit losses.

The balances with related parties at 31 December 2016 were as follows:

	2016				
	<i>Associates and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
Assets:					
Cash and balances with banks and Central Bank	-	181	-	-	181
Murabaha and Wakala receivables from banks	-	6,786	-	-	6,786
Murabaha financing	25,172	-	-	115	25,287
Mudaraba financing	1,885	-	-	-	1,885
Ijarah Muntahia Bittamleek	-	-	143	226	369
Musharaka financing	-	-	45	-	45
Other assets	947	2	61	24	1,034
Liabilities and equity of investment acountholders:					
Wakala payables to non-banks	4,235	10,505	48	1,134	15,922
Current accounts	343	9	793	132	1,277
Equity of investment acountholders	-	-	825	135	960
Other liabilities	60	-	-	5	65
Contingent liabilities and commitments	743	-	-	-	743

31 RELATED PARTY TRANSACTIONS (continued)

	2015				
	<i>Associates and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
Assets:					
Cash and balances with banks and Central Bank	-	-	-	-	-
Murabaha and Wakala receivables from banks	-	36	-	-	36
Murabaha financing	32,799	-	-	36	32,835
Mudaraba financing	1,885	-	-	-	1,885
Ijarah Muntahia Bittamleek	-	-	-	187	187
Musharaka financing	-	-	55	-	55
Other assets	1,924	-	3,660	4	5,588
Liabilities and equity of investment accountholders:					
Murabaha and Wakala due to banks	1,508	-	-	-	1,508
Wakala payables to non-banks	2,235	23,400	637	653	26,925
Current accounts	2,216	4,010	163	50	6,439
Equity of investment accountholders	-	-	153	64	217
Other liabilities	911	191	3	3	1,108
Contingent liabilities and commitments	743	-	-	-	743

31 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the consolidated income statement are as follows:

	2016				
	<i>Associates and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
Income:					
Income from financing contracts	-	19	8	6	33
Other income	-	-	-	-	-
Gain on sale of investments and Sukuk	-	-	-	-	-
Expenses:					
Profit on Murabaha and Wakala payables to banks	-	-	-	-	-
Profit paid on Wakala from non-banks	27	380	1	22	430
Share of profits on equity of investment account holders	-	-	3	-	3
Other operating expenses	-	-	593	-	593
Provision for impairment	8,947	-	-	-	8,947
2015					
	<i>Associates and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
Income:					
Income from financing contracts	54	-	4	5	63
Other income	80	-	-	1	81
Gain on sale of investments and Sukuk	217	-	1,259	-	1,476
Expenses:					
Profit on Murabaha and Wakala payables to banks	3	-	-	-	3
Profit paid on Wakala from non-banks	144	2,720	13	16	2,893
Share of profits on equity of investment account holders	-	-	2	-	2
Other operating expenses	6	-	432	-	438
Provision for impairment	9,425	-	-	-	9,425

Directors' remuneration for 2016 amounted to BD 389 thousands (2015: BD 365 thousands).

Compensation of key management personnel, consisting of short-term benefits and non-cash remuneration, for the year was BD 2,902 thousands (2015: BD 3,142 thousands).

32 CONTINGENT LIABILITIES AND COMMITMENTS

	2016 BD '000	2015 BD '000
Contingent liabilities on behalf of customers		
Guarantees	24,993	28,144
Letters of credit	20,788	9,594
Acceptances	3,607	2,275
	49,388	40,013
Irrevocable unutilised commitments		
Unutilised financing commitments	114,491	79,465
Unutilised non-funded commitments	23,308	37,023
Commitments towards development cost	2,951	6,981
	140,750	123,469
Commitment relating to purchase of investment	-	4,182
Capital expenditure commitments		
Estimated capital expenditure contracted for at the consolidated statement of financial position date but not provided for	-	29
	190,138	167,693
Forward foreign exchange contracts - notional amount	20,280	14,448

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	2016 BD '000	2015 BD '000
Within 1 year	1,168	1,328
After one year but not more than five years	2,360	2,576
	3,528	3,904

33 RISK MANAGEMENT

33.1 INTRODUCTION

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk, and market risk. It is also subject to early settlement risk and operational risks.

The Group's risk function is independent of lines of business and the Group Chief Risk Officer reports to the Group CEO with access to the Board Audit and Risk Committee.

The independent risk control process does not include business risks such as changes in the environment, technology and industry, they are monitored through the Group's strategic planning process.

Risk

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for setting the overall risk management framework and appetite encompassing the risk strategies and policies.

Executive Committee

The Executive Committee has the responsibility to review and recommend to the Board for approval the overall risk process and policies within the Bank.

Shari'a Supervisory Board

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

Risk Committee

Credit / Risk committee recommends the risk policy and framework to the Board. Its primary role is selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive management. In addition, individual credit transaction approval and monitoring is an integral part of the responsibilities of Risk Committee.

Asset and Liability Committee

The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Group's financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost / yield profiles of assets and liabilities and evaluates the Group's financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

Audit Committee

The Audit and Risk Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, reviewing and monitoring the overall risk framework and profile of the Group as well as its adherence to stipulated policies and limits, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

33 RISK MANAGEMENT (continued)
33.1 INTRODUCTION (continued)

The Audit and Risk Committee reviews Group's accounting and financial practices, risk management reports, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group's external and internal auditors.

Internal Audit

Risk management processes throughout the Group are audited by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

Risk measurement and reporting systems

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's risk management department is also responsible for identifying risk characteristics inherent in new and existing products, activities and setting exposure limits to mitigate these risks.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across respective risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee and Asset Liability Committee as may be applicable. The reports includes aggregate credit quality and exposures, market risk exposures, operational risk metrics, limit exceptions, liquidity ratios, stress testing, and risk profile changes. A detailed report is produced on a quarterly basis with simplified reports produced on a monthly basis. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to all relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

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

33 RISK MANAGEMENT (continued)
33.1 INTRODUCTION (continued)

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

33.2 CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

The table below shows the maximum exposure (excluding sovereign exposures) to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of provision, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Gross maximum exposure 2016 BD '000</i>	<i>Gross maximum exposure 2015 BD '000</i>
ASSETS		
Balances with other banks	30,120	38,884
Murabaha receivables from banks	182,452	103,345
Corporate Sukuk	28,934	50,472
Murabaha and Mudaraba financing	409,816	389,628
Ijarah Muntahia Bittamleek	187,356	154,501
Musharaka financing	12,305	7,154
Assets under conversion	34,465	31,355
Other assets	9,918	23,955
Total	895,366	799,294
Contingent liabilities and commitments	156,720	167,693
Total credit risk exposure	1,052,086	966,987

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Type of credit risk

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka financing, Sukuk and Ijarah Muntahia Bittamleek contracts. Murabaha financing contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabamal) while the recipient of the funds (the Mudarib or the manager)

33 RISK MANAGEMENT (continued)
33.2 CREDIT RISK (continued)

provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit. The various financial instruments are:

Murabaha financing

The Group arranges Murabaha transactions by buying an asset (which represents the object of the Murabaha) and then selling this asset to customers (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is paid in instalments over the agreed period.

Ijarah Muntahia Bittamleek

The legal title of the leased asset under Ijarah Muntahia Bittamleek passes to the lessee at the end of the Ijarah term, provided that all Ijarah instalments are settled.

a) The credit quality of balances with banks and Murabaha receivables from banks subject to credit risk is as follows:

	31 December 2016				
	Neither past due nor impaired			Past due or individually impaired	Total
	'A' Rated	'B' Rated	Unrated		
BD '000	BD '000	BD '000	BD '000	BD '000	
Balances with other banks	24,012	4,298	1,810	-	30,120
Murabaha and Wakala receivables from banks	102,166	55,856	24,430	-	182,452
	126,178	60,154	26,240	-	212,572

	31 December 2015				
	Neither past due nor impaired			Past due or individually impaired	Total
	'A' Rated	'B' Rated	Unrated		
BD '000	BD '000	BD '000	BD '000	BD '000	
Balances with other banks	34,999	2,326	1,559	-	38,884
Murabaha and Wakala receivables from banks	46,016	27,659	29,670	-	103,345
	81,015	29,985	31,229	-	142,229

The ratings referred to in the above tables are by one or more of the four international rating agencies (Standards & Poors, Moody's, Fitch and Capital Intelligence). The unrated exposures are with various high quality Middle East financial institutions, which are not rated by a credit rating agency. In the opinion of the management, these are equivalent to "A" rated banks or very secured and well managed institutions.

33 RISK MANAGEMENT (continued)
33.2 CREDIT RISK (continued)

b) The credit quality of Corporate Sukuk, financing facilities and other assets subject to credit risk, based on internal credit ratings, is as follows:

	31 December 2016				
	<i>Neither past due nor impaired</i>		<i>Past due</i>		<i>Total BD '000</i>
	<i>Satisfactory BD '000</i>	<i>Watch List BD '000</i>	<i>Not impaired BD '000</i>	<i>Impaired BD '000</i>	
Corporate Sukuk	28,934	-	-	-	28,934
Murabaha and Mudaraba financing	276,912	140	69,633	63,131	409,816
Ijarah Muntahia Bittamleek	155,919	2,126	20,855	8,456	187,356
Musharaka financing	7,213	-	4,941	151	12,305
Assets under conversion	13,101	-	1,093	20,271	34,465
Other assets	9,128	-	778	12	9,918
	491,207	2,266	97,300	92,021	682,794

	31 December 2015				
	<i>Neither past due nor impaired</i>		<i>Past due</i>		<i>Total BD '000</i>
	<i>Satisfactory BD '000</i>	<i>Watch List BD '000</i>	<i>Not impaired BD '000</i>	<i>Impaired BD '000</i>	
Corporate Sukuk	49,829	-	-	643	50,472
Murabaha and Mudaraba financing	282,768	11,254	56,489	39,117	389,628
Ijarah Muntahia Bittamleek	132,170	5,409	14,282	2,640	154,501
Musharaka financing	3,791	435	2,928	-	7,154
Assets under conversion	1,004	-	15,438	14,913	31,355
Other assets	22,641	104	1,203	7	23,955
	492,203	17,202	90,340	57,320	657,065

In addition to the above, the financing facilities provided to the Government of Bahrain, its related entities and GCC sovereign entities amounts to BD 62,184 thousands (2015: BD 95,964 thousands).

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

33 RISK MANAGEMENT (continued)
33.2 CREDIT RISK (continued)

c) Aging analysis of past due but not impaired financing facilities are illustrated as follows:

31 December 2016				
	<i>0-30 days BD '000</i>	<i>31-90 days BD '000</i>	<i>> 90 days BD '000</i>	<i>Total BD '000</i>
Murabaha and Mudaraba financing	37,857	31,776	-	69,633
Ijarah Muntahia Bittamleek	17,204	3,651	-	20,855
Musharaka financing	4,538	403	-	4,941
Assets under conversion	370	723	-	1,093
Other assets	407	371	-	778
	60,376	36,924	-	97,300

31 December 2015				
	<i>0-30 days BD '000</i>	<i>31-90 days BD '000</i>	<i>> 90 days BD '000</i>	<i>Total BD '000</i>
Murabaha and Mudaraba financing	19,447	17,836	19,206	56,489
Ijarah Muntahia Bittamleek	4,600	7,080	2,602	14,282
Musharaka financing	148	2,182	598	2,928
Assets under conversion	1,147	638	13,653	15,438
Other assets	545	4	654	1,203
	25,887	27,740	36,713	90,340

All the past due but not impaired financing facilities are covered by collateral of BD 88,455 thousands (2015: BD 186,280 thousands). The utilisation of the collateral will be on customer by customer basis and is limited to the customers' total exposure.

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in Note 32 except capital commitments.

During the year BD 17,803 thousands (2015: BD 57,899 thousands) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

At 31 December 2016, the amount of credit exposure in excess of 15% of the Group's regulatory capital to individual counterparties was BD Nil (2015: BD Nil).

33.3 LEGAL RISK AND CLAIMS

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgements can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2016, legal suits amounting to BD 4,925 thousands (2015: BD 6,285 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group also has filed counter cases against these parties.

34 CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group manages its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and equity of investment account holders by geographic region and industry sector was as follows:

	<i>Liabilities, equity of investment account holders and owners' equity</i>			<i>Liabilities, equity of investment account holders and owners' equity</i>		
	<i>Assets</i>	<i>Contigent liabilities and Commitments</i>		<i>Assets</i>	<i>Contigent liabilities and Commitments</i>	
	<i>2016 BD '000</i>	<i>2016 BD '000</i>	<i>2016 BD '000</i>	<i>2015 BD '000</i>	<i>2015 BD '000</i>	<i>2015 BD '000</i>
Geographic region						
GCC	1,492,594	1,192,331	188,540	1,470,200	1,266,869	172,134
Arab World	38,355	50,222	13,377	20,031	26,722	23
Europe	49,583	95,056	427	67,108	21,067	694
Asia Pacific	52,459	893	11,602	77,351	15,643	13,145
North America	9,535	314	-	10,923	1,302	-
Others	38,767	17,578	-	11,030	5,038	49
	1,681,293	1,356,394	213,946	1,656,643	1,336,641	186,045
Owners' equity	-	324,899	-	-	320,002	-
	1,681,293	1,681,293	213,946	1,656,643	1,656,643	186,045

34 CONCENTRATIONS (continued)

	<i>Liabilities, equity of investment account holders and owners' equity</i>			<i>Liabilities, equity of investment account holders and owners' equity</i>		
	<i>Assets</i>	<i>Contingent liabilities and Commitments</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>Contingent liabilities and Commitments</i>	<i>Contingent liabilities and Commitments</i>
	<i>2016 BD '000</i>	<i>2016 BD '000</i>	<i>2016 BD '000</i>	<i>2015 BD '000</i>	<i>2015 BD '000</i>	<i>2015 BD '000</i>
Industry sector						
Government and public sector	525,865	148,798	33,417	537,925	107,008	28,168
Banks and financial institutions	362,504	310,634	40,390	303,063	273,763	19,359
Real estate	382,136	192,038	72,566	407,449	210,969	48,089
Trading and manufacturing	100,405	64,371	23,395	122,415	103,745	48,678
Aviation	10,245	14,918	-	11,171	37,704	-
Individuals	200,220	461,909	8,412	179,001	499,008	1,456
Others	99,918	163,726	35,766	95,619	104,444	40,295
	1,681,293	1,356,394	213,946	1,656,643	1,336,641	186,045
Owners' equity	-	324,899	-	-	320,002	-
	1,681,293	1,681,293	213,946	1,656,643	1,656,643	186,045

35 MARKET RISK

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Risk Committee as well as Asset and Liability Committee (ALCO) of the Group.

35.1 EQUITY PRICE RISK

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the overall investment exposure of the Bank. This is monitored on an ongoing basis by the Group's Investment Committee and Risk Management.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and fair value through equity investments) solely due to reasonably possible changes in equity prices, is as follows:

35 MARKET RISK (continued)
35.1 EQUITY PRICE RISK (continued)

	2016			
	10% increase		10% decrease	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
Quoted:				
Bahrain	-	166	(166)	-
Saudi	776	-	(776)	-
Singapore	-	231	(231)	-
Unquoted	10,765	270	(10,765)	(270)

	2015			
	10% increase		10% decrease	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
Quoted:				
Bahrain	-	193	(193)	-
Saudi	585	-	(585)	-
Singapore	-	284	(284)	-
Frankfurt	179	-	(179)	-
Unquoted	10,736	373	(10,736)	(373)

35.2 PROFIT RETURN RISK

The Group has exposure to fluctuations in the profit rates on its assets and liabilities. The Group recognises income on certain financial assets on a time-apportioned basis. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Risk Committee as well as Asset Liability Committee.

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2016			
	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>
Bahraini dinars	0.10	380	0.10	(380)
US dollars	0.10	193	0.10	(193)

35 MARKET RISK (continued)
35.2 PROFIT RETURN RISK (continued)

	2015			
	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>
Bahraini dinars	0.10	(237)	(0.10)	237
US dollars	0.10	(191)	(0.10)	191

35.3 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Risk Committee as well as Asset Liability Committee to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2016 and 2015.

36 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Risk Committee as well as Asset Liability Committee of the Group.

The table below summarises the expected maturity profile of the Group's assets and liabilities as at 31 December 2016 and 2015:

	31 December 2016				
	<i>Upto 3 months</i> <i>BD '000</i>	<i>3 months to 1 year</i> <i>BD '000</i>	<i>1 to 5 years</i> <i>BD '000</i>	<i>Over 5 years</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
ASSETS					
Cash and blaances with banks and the Central Bank	120,623	4,800	6,567	-	131,990
Sovereign Sukuk	3,091	23,371	140,624	191,183	358,269
Murabaha & Wakala receivables from banks	182,452	-	-	-	182,452
Corporate Sukuk	8,731	3,910	16,293	-	28,934
Murabaha and Mudaraba financing	100,707	120,305	108,870	140,987	470,869
Ijarah Muntahia Bittamleek	2,689	1,615	79,273	104,908	188,485
Musharaka financing	66	-	8,811	3,427	12,304
Assets under conversion	-	-	27,688	6,777	34,465
Non-trading investments	1,947	-	120,126	-	122,073
Investments in real estates	-	-	48,930	2,933	51,863
Development properties	2,943	-	14,838	-	17,781
Investment in associates	-	-	7,531	3,030	10,561
Other assets	13,066	1,182	6,267	4,921	25,436
Goodwill	-	-	-	25,971	25,971
Assets held-for-sale	19,840	-	-	-	19,840
	456,155	155,183	585,818	484,137	1,681,293
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Murabaha and Wakala payables to banks	46,058	17,206	68,768	-	132,032
Wakala payables to non-banks	52,871	101,250	569,318	-	723,439
Current accounts	279,609	-	-	-	279,609
Liabilities under conversion	217	-	-	-	217
Term financing	48,889	-	33,744	9,204	91,837
Other liabilities	34,761	1,877	12,405	-	49,043
Liabilities relating to assets classified as held-for-sale	11,421	-	-	-	11,421
Equity of investment accountholders	40,286	8,146	20,364	-	68,796
	514,112	128,479	704,599	9,204	1,356,394

36 LIQUIDITY RISK (continued)

	31 December 2015				
	<i>Upto 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	<i>Total BD '000</i>
ASSETS					
Cash and blaances with banks and the Central Bank	135,505	11,215	5,852	-	152,572
Sovereign Sukuk	721	60,805	91,176	197,772	350,474
Murabaha & Wakala receivables from banks	103,345	-	-	-	103,345
Corporate Sukuk	675	16,566	23,553	9,678	50,472
Murabaha and Mudaraba financing	45,936	139,257	209,579	89,427	484,199
Ijarah Muntahia Bittamleek	4,272	6,222	62,881	81,842	155,217
Musharaka financing	1,951	819	2,793	1,591	7,154
Assets under conversion	-	-	22,163	9,869	32,032
Non-trading investments	-	-	123,157	357	123,514
Investments in real estates	-	-	68,786	-	68,786
Development properties	-	-	49,021	-	49,021
Investment in associates	-	-	7,525	2,469	9,994
Other assets	34,590	2,144	3,056	4,102	43,892
Goodwill	-	-	-	25,971	25,971
	326,995	237,028	669,542	423,078	1,656,643
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Murabaha and Wakala payables to banks	91,067	13,437	16,291	-	120,795
Wakala payables to non-banks	-	84,257	758,313	-	842,570
Current accounts	224,366	-	-	-	224,366
Liabilities under conversion	2,327	-	-	-	2,327
Term financing	-	7,531	28,455	-	35,986
Other liabilities	19,995	20,329	7,922	-	48,246
Equity of investment accountholders	18,706	12,470	31,175	-	62,351
	356,461	138,024	842,156	-	1,336,641

36 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 and 2015 based on contractual undiscounted payment obligation:

	31 December 2016					
	<i>On demand BD '000</i>	<i>Upto 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	<i>Total BD '000</i>
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha & Wakala payables to banks	-	124,635	7,397	-	-	132,032
Wakala payables to non-banks	-	313,518	328,513	81,408	-	723,439
Current accounts	279,609	-	-	-	-	279,609
Equity of investment accountholders	28,067	40,729	-	-	-	68,796
Liabilities under conversion	217	-	-	-	-	217
Term financing	-	48,889	-	33,744	9,204	91,837
Unutilised commitments	8,999	12,122	46,577	44,729	25,372	137,799
Contingent liabilities	35,318	24,531	5,980	10,318	-	76,147
Other financial liabilities	-	7,985	6,246	528	-	14,759
Profit on financial liabilities	-	761	5,015	6,329	-	12,105
Liabilities relating to assets classified as held-for-sale	-	11,421	-	-	-	11,421
	352,210	584,591	399,727	177,056	34,576	1,548,160
	31 December 2015					
	<i>On demand BD '000</i>	<i>Upto 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	<i>Total BD '000</i>
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha & Wakala payables to banks	-	112,366	8,429	-	-	120,795
Wakala payables to non-banks	-	384,898	427,200	30,472	-	842,570
Current accounts	224,366	-	-	-	-	224,366
Equity of investment accountholders	27,986	34,365	-	-	-	62,351
Liabilities under conversion	-	-	2,327	-	-	2,327
Term financing	-	-	7,531	28,455	-	35,986
Unutilised commitments	9,319	23,370	67,062	9,063	7,674	116,488
Contingent liabilities	40,013	7,300	1,037	6,759	-	55,109
Other financial liabilities	-	6,245	12,438	195	-	18,878
Profit on financial liabilities	-	1,037	5,986	3,063	-	10,086
	301,684	569,581	532,010	78,007	7,674	1,488,956

37 SEGMENT INFORMATION**PRIMARY SEGMENT INFORMATION**

For management purposes, the Group is organised into four major business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking and private banking and wealth management.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
Capital	Manages the undeployed capital of the Group by investing it in high quality financial instruments, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	31 December 2016				
	<i>Banking</i> <i>BD '000</i>	<i>Treasury</i> <i>BD '000</i>	<i>Investments</i> <i>BD '000</i>	<i>Capital</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
Operating income	27,951	13,369	20,319	1,361	63,000
Segment result	(10,062)	11,957	14,723	(522)	16,096
Segment assets	706,572	678,896	236,338	59,487	1,681,293
Segment liabilities, and equity	1,021,629	317,079	50,312	292,273	1,681,293

Goodwill resulting from BMI acquisition is allocated to banking segment.

	31 December 2015				
	<i>Banking</i> <i>BD '000</i>	<i>Treasury</i> <i>BD '000</i>	<i>Investments</i> <i>BD '000</i>	<i>Capital</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
Operating income	32,493	9,623	7,487	9,295	58,898
Segment result	8,998	6,532	(4,458)	(524)	10,548
Segment assets	655,372	618,757	219,074	163,440	1,656,643
Segment liabilities, and equity	1,108,457	177,678	39,565	330,943	1,656,643

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

38 FIDUCIARY ASSETS

Funds under management at the year-end amounted to BD 88,209 thousands (2015: BD 80,891 thousands). These assets are held in a fiduciary capacity, measured at cost and are not included in the consolidated statement of financial position.

39 SHARI'A SUPERVISORY BOARD

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

40 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of Sovereign Sukuk is BD 355,767 thousands having a carrying value of BD 358,269 thousands and the fair value of Corporate Sukuk is BD 28,888 thousands having a carrying value of BD 28,934 thousands. The estimated fair values of other financial instruments are not materially different to their carrying values as of 31 December 2016 and 2015.

41 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group received Sharia' prohibited income totalling BD 412 thousands (2015: BD 189 thousands). These include, income earned from the conventional financing and investments due to acquiring BMI and BSB, penalty charges from customers and interest on current account balances held with correspondent banks. These funds were allocated to charitable contributions after deducting recovery expenses of these funds.

42 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 267 thousands (2015: BD 320 thousands) on account of charitable donations.

43 ZAKAH

Pursuant to a resolution of the shareholders in an EGM held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognized in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2016 has been determined by the Shari'a supervisory board as 2.5 fils (2015: 3.9 fils) per share.

44 CAPITAL ADEQUACY

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

	2016 BD '000	2015 BD '000
Common equity Tier 1 capital	273,576	268,714
Additional Tier 1 capital	5	-
Tier 2 capital	29,873	32,240
Total capital	303,454	300,954
Credit risk-weighted exposures	1,314,315	1,381,565
Market risk-weighted exposures	8,053	19,606
Operational risk-weighted exposures	85,710	99,967
Total risk-weighted assets	1,408,078	1,501,138
Investment risk reserve	2	-
Total Adjusted Risk Weighted Exposures	1,408,076	1,501,138
Total capital ratio	21.55%	20.05%
Minimum requirement	12.5%	12.5%

45 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Group are covered by deposit protection schemes established by the Central Bank of Bahrain (CBB). Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A periodic contribution as mandated by the CBB is paid by the Group under this scheme.

46 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the current year presentation. Such reclassifications did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.



Al Salam Bank-Bahrain B.S.C.

Bahrain World Trade Center East Tower

P. O. Box 18282

Manama, Kingdom of Bahrain