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Financial statements for the financial year ended

December 31, 2016
with Independent auditor's report



Labour Fund

Financial statements for the financial year ended
December 31, 2016
with Independent auditor's report

Board of Directors

Shaikh Mohammed Bin Essa Al- Khalifa	Chairman
Mr. Khaled Ali Rashed Alamin	Vice Chairman
Mr. Hassan Ameen Jarrar	Director
Mr. Mohammed Adel Fakhro	Director

Chief Executive officer

Dr. Ebrahim Janahi

Registered Office

P. O. Box 18131
Manama
Kingdom of Bahrain

Bankers

Bank of Bahrain and Kuwait
Al Salam Bank
Bahrain Islamic Bank
National Bank of Bahrain
Bahrain Development Bank
Ebdaa Bank

Auditors

Rödl – Middle East
P.O. Box 10746
Manama
Kingdom of Bahrain

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Independent Auditor's Report

To The Board of Directors of
Labour Fund
Manama, Kingdom of Bahrain

Report on the Audit of Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of Labour Fund – (the Fund) – which comprise the statement of financial position as of December 31, 2016 and the related statement of activities, statement of changes in fund balance and statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2016 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Basis for Qualified Opinion

Other receivable (Note- 6) comprise receivables transferred from the High Council for Vocational Training (and its relevant councils) amounted to BD 14,316,815 as of December 31, 2016. These receivables includes training subscriptions amounted to BD 13,844,637, returned cheques amounted to BD 73,714 and deferred cheques amounted to BD 398,464 , although the confirmed provision against those amounts is BD 5,971,258.

The collectable of the remaining balance that amounted to BD 6,340,454 as of March 31, 2016 has been qualified by the auditor of the High Councils due to the inability to obtain sufficient audit evidences, besides we couldn't conduct the review procedures that enable us to obtain the assurance on the sufficiency of the confirmed provision against those amounts as of December 31, 2016.

These audited financial statements have been approved for issue by the Chairman and the Chief Executive of labour fund on February 4, 2018.

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

Independent Auditor's Report (Continued)

Emphasis of matter

We would like to draw the attention to (Note- 1) on the financial statements, which indicate that a Royal Decree No 33 of 2015 was issued on October 7, 2015 for the cancellation of High Council for Vocational Training (and its all relevant Councils) and transfer its tasks and powers to the Labour Fund. Therefore, all the assets and liabilities of the council (and its relevant councils) have been transferred to the accounts of the Labour Fund as of March 31, 2016. Our opinion is not qualified in respect of this matter.

Other matters

The financial statements of the Fund for the year ended December 31, 2015 have been audited by another auditor, who expressed an unqualified opinion on those financial statements in the audit report in July 31, 2016. Moreover, the financial information of the High Council for the Vocational Training and its relevant councils for the period ended 31 March 2016 were audited by another auditor who expressed qualified opinion on November 30, 2017.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent Auditor's Report (Continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Independent Auditor's Report (Continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Fund and physical count was conducted in accordance with recognized practice. We have obtained the information and explanations that we required for the purpose of our audit and the financial statements incorporate the information that is required by the Article No. (6) Of Law No. 57 as of August 12, 2006 regarding the establishment of the Labour Fund. According to the information available to us, there were no violations have occurred in regard to Article No. (6) Of Law No. 57 as of August 12, 2006 regarding the establishment of the Labour Fund during the year ended December 31,2016 that might have had a material effect on the Fund's activities or its financial position, except that the membership of four members in the Board of Directors ended on May 25, 2015, and since that date there is no Royal Decree has been issued for appointing new members, which led to the following:

- The meeting of Board of Directors has not been held since that date, due to the incompleteness of a quorum of the Board.
- The Board of Directors could not carry out its tasks and powers stipulated in Article No. (6) of Law No. 57 as of August 12, 2006, regarding the establishment of the Labour Fund.



Rabbie Mukhaimer
Partner's registration No. 122
Rödl Middle East International Accountants
Manama – Kingdom of Bahrain
February 4, 2018

Exhibit - A

**Labour Fund
Manama – Kingdom of Bahrain**

Statement of financial position as of December 31, 2016

"All amounts are in Bahraini Dinar"

	Notes	<u>2016</u>	<u>2015</u>
Assets			
Non-current assets:			
Furniture and equipment	4	<u>2,964,109</u>	<u>903,475</u>
Current assets:			
Due from related parties	5 (a)	<u>7,442,191</u>	7,200,000
Other receivables	6	<u>9,334,717</u>	2,209,154
Cash and cash equivalents	7	<u>90,952,284</u>	<u>34,234,471</u>
Total current assets		<u>107,729,192</u>	<u>43,643,625</u>
Total assets		<u>110,693,301</u>	<u>44,547,100</u>
Fund balance and liabilities			
Fund balance:			
General reserve	8	<u>14,305,510</u>	12,258,314
Projects' fund balance		<u>86,566,866</u>	<u>23,035,989</u>
Total fund balance		<u>100,872,376</u>	<u>35,294,303</u>
Liabilities			
Current liabilities:			
Due to related parties	5 (b)	<u>2,080,370</u>	2,094,346
Accounts payable and accruals	9	<u>7,740,555</u>	<u>7,158,451</u>
Total current liabilities		<u>9,820,925</u>	<u>9,252,797</u>
Total fund balance and liabilities		<u>110,693,301</u>	<u>44,547,100</u>

These financial statements have been approved by the Chairman and the Chief Executive and authorized for issue on February 4, 2018 and signed on their behalf by:



Mohammed Bin Essa Al- Khalifa
Chairman



Dr. Ebrahim Janahi
Chief Executive

The accompanying notes form an integral part of these financial statements.

Labour Fund
Manama – Kingdom of Bahrain

Statement of activities for the year ended December 31, 2016

"All amounts are in Bahraini Dinar"

	Notes	<u>2016</u>	<u>2015</u>
Revenues:			
Fees income	10	93,867,123	77,792,554
Other income	11	1,086,162	293,109
Total revenues		<u>94,953,285</u>	<u>78,085,663</u>
Expenditures:			
Projects costs	12	42,110,656	33,114,376
Unemployment insurance subscriptions	13	18,621,352	17,840,821
Salaries, benefits and other remunerations	14	7,684,882	5,877,281
General and administrative expenses	15	4,371,860	3,054,287
Advertising and marketing expenses		1,170,365	851,070
Depreciation expense	4	359,344	233,790
Training expense		162,863	53,632
Total expenditures		<u>74,481,322</u>	<u>61,025,257</u>
Surplus of revenues over expenditures for the year, transferred to projects' fund balance		<u>20,471,963</u>	<u>17,060,406</u>



Mohammed Bin Essa Al- Khalifa
Chairman



Dr. Ebrahim Janahi
Chief Executive

The accompanying notes form an integral part of these financial statements.

Exhibit - C

Labour Fund
Manama – Kingdom of Bahrain

Statement of changes in fund balance for the year ended December 31, 2016

"All amounts are in Bahraini Dinar"

	General Reserve	Projects' Fund balance	Total
	<u> </u>	<u> </u>	<u> </u>
Balance at January 1, 2015	10,552,274	7,681,623	18,233,897
Surplus of revenues over expenditures for the year	-	17,060,406	17,060,406
Transferred to the general reserve	1,706,040	(1,706,040)	-
Balance at December 31, 2015	<u>12,258,314</u>	<u>23,035,989</u>	<u>35,294,303</u>
Balance at January 1, 2016	12,258,314	23,035,989	35,294,303
Transferred from HCVT (and its relevant councils), (Note - 1)	-	40,645,600	40,645,600
Credit balances transferred from HCVT (and its relevant councils), - write off -	-	3,890,369	3,890,369
Amendments of transferred balances from HCVT (and its relevant councils), (Note - 1)	-	570,141	570,141
Surplus of revenues over expenditures for the year	-	20,471,963	20,471,963
Transfer to the general reserve	2,047,196	(2,047,196)	-
Balance at December 31, 2016	<u>14,305,510</u>	<u>86,566,866</u>	<u>100,872,376</u>

The accompanying notes form an integral part of these financial statements.

Labour Fund
Manama – Kingdom of Bahrain

Statement of cash flows for the year ended December 31, 2016

"All amounts are in Bahraini Dinar"

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Surplus of revenues over expenditures for the year	20,471,963	17,060,406
Adjustments:		
Depreciation	359,344	233,790
Profit income	(1,081,112)	(288,259)
Gain on disposal of furniture and equipment	-	(505)
	<u>19,750,195</u>	<u>17,005,432</u>
Changes in operating assets and liabilities:		
Other receivables	2,160,747	1,218,669
Due from related parties	(242,191)	(523,612)
Due to related parties	(13,976)	208,105
Accounts payable and accruals	(4,779,463)	1,836,276
Postponed cheques – HCVT (and its relevant councils)	(1,418,295)	-
Credit balances transferred from HCVT (and its relevant councils) – write off –	3,890,369	-
Net cash generated from operating activities	<u>19,347,386</u>	<u>19,744,870</u>
Cash flows from investing activities:		
Purchase of furniture and equipment	(290,959)	(467,133)
Proceeds from sale of furniture and equipment	-	505
Profit income received	901,908	269,950
Net cash generated from /(used in) investing activities	<u>610,949</u>	<u>(196,678)</u>
Net increase in cash and cash equivalents	19,958,335	19,548,192
Cash and cash equivalents at the beginning of the year	34,234,471	14,686,279
Cash transferred from HCVT (and its relevant councils)	36,759,478	-
Cash and cash equivalents at the end of the year (Note 7)	<u>90,952,284</u>	<u>34,234,471</u>

The accompanying notes form an integral part of these financial statements.

Labour Fund Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

1. General Information:

The Labour Fund ("the Fund") was established, in accordance with Law number 57 (2006) issued on August 12, 2006, as a judicial entity having an financial independence and administrative support and entitled to all the privileges given to other ministries, public institutions and other government entities in the Kingdom of Bahrain.

The operation of the Labour Fund was fully managed by the Economic Development Board ("EDB") until December 31, 2006. All the costs were being incurred by the EDB on behalf of the Fund from the budget allocated to the Fund until this date. From January 1, 2007, the Fund operationally separated from the EDB and commenced its operations independently.

The Fund aims to increase the efficiency and productivity of Bahraini labour, supporting the national economy, developing the private sector and creating new suitable job opportunities for Bahrainis in the Kingdom of Bahrain.

On October 7, 2015 Royal Decree No. 33 of 2015 was issued to discontinue the High Council for Vocational Training (and its all relevant Councils) and transfer its tasks and powers to the labour fund and therefore, all the assets, liabilities of the council (and its all relevant Councils) have been transferred to the Fund accounts as of March 31, 2016.

The membership of four members in the Board of Directors ended on May 25, 2015, and there is no Royal Decree issued for appointing new members until the date of the statement of financial position, which led to the following:

- The meeting of Board of Directors has not been held since that date, due to the incompleteness of a quorum of the Board.
- The Board of Directors could not carry out its tasks and powers stipulated in Article No. (6) of Law No. 57 as of August 12, 2006, regarding the establishment of the Labour Fund.
- These financial statements have been approved for issuance by the Chairman and Chief Executive of the Fund on February 4, 2018.

Labour Fund
Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

2. Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 Amendments to IFRSs those are mandatorily effective for the current year:

In the current year, the following effective amendments to IFRSs issued by the International Accounting Standards Board (IASB) are mandatory for the accounting period beginning on or after January 1, 2016:

• **Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities:**

Applying the Consolidation Exception (Effective for annual periods beginning on or after January 1, 2016)

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10.

• **Amendments to IFRS 11 "Accounting for Acquisitions of Interest in Joint Operations"**

(Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 "Business Combinations". A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

• **Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"**

(Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset.

• **Amendments to IAS 27 "Separate Financial Statements"**

(Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted).

The amendments allowed an entity to account for its investment in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost; or
- In accordance with IFRS 9; or
- Using the equity method

Also, clarified that when the parent ceases or becomes an investment entity, it should account for the change from the date when the change in status occurs.

Labour Fund Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

2.2 New and revised IFRSs in issue but not yet effective:

The Company has not applied the following new and revised IFRSs that have been issued but are not yet mandatorily effective:

- **Amendments to IFRS 2 "Classification and Measurement of Share-based payment Transactions"**

(Effective for annual periods beginning on or after January 1, 2018).

- **IFRS 9 "Financial Instruments"**

(Effective for annual periods beginning on or after January 1, 2018 with earlier application permitted).

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting.

The final version of IFRS 9 was issued in July 2014, which adds a new expected loss impairment model and limited amendments to the classification and measurement requirements by introducing the "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test. The final version supersedes all previous versions of IFRS 9 and replaces IAS 39. The Company is in the process to quantify the effect on the financial statements.

- **IFRS 14 "Regulatory Deferral Accounts"**

(Effective for annual periods beginning on or after July 1, 2016)

This standard is applied by first-time adaptors of IFRS. The standard is designed as a limited scope standard to provide short-term solution for rate-regulated entities that have not yet adopted IFRS.

- **IFRS 15 "Revenue from Contracts with Customers"**

(Effective for annual periods beginning on or after January 1, 2018 with earlier application permitted).

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and related Interpretations when it becomes effective. The standard introduces a five-step approach for revenue recognition to be applied to all contracts with customers.

- **IFRS 16 "Leases"**

(Effective for annual periods beginning on or after January 1, 2019).

IFRS 16 provides a comprehensive model for identification of lease arrangements and their treatment in the financial statements of both lessees and lessors.

Labour Fund Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

• Amendments to IAS 7 "Disclosure Initiative"

(Effective for annual periods beginning on or after January 1, 2017)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities; however, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The management anticipates that the new or revised standards will be adopted in the Company's accounting policies for the period beginning on or after the effective date of the pronouncement, and those new and revised standards that have been issued but are not relevant to the Company's operations are expected not to have a material impact on the Company's financial statements.

3. Significant Accounting Policies

The significant accounting policies applied in the preparation of financial statements are set out below:

3.1 Basis of presentation the financial statements

- The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Boards (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the requirements of Decree Law No. 57 of 12 August 2006.
- The accounting policies used in preparation of the financial statements are consistent with those used in preparation of the financial statements of the previous year.

3.2 Accounting convention

- The financial statements are prepared under the historical cost convention, using the accrual principle.
- The financial statements are prepared in Bahraini Dinar.

3.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of current events, actual results may differ from those estimates.

Labour Fund Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

3.4 Recognition and derecognition of financial assets and liabilities

A financial asset or a financial liability is recognized when the Fund becomes a party to the contractual terms of the financial instrument. An asset is derecognized either when the contractual rights to the cash flows from the financial asset expire or the Fund has transferred substantially all the risks and rewards of ownership or does not transfer or retain all the risks and rewards of ownership and no longer controls the asset. A financial liability shall not be achieved when the obligation specified under the contract is discharged or canceled or expires.

3.5 Cash and cash equivalents

Cash and cash equivalents for the purpose of preparing the statement of cash flows comprise cash on hand and at banks and short term bank deposits with a maturity period not exceeding three months from the date of deposit.

3.6 Receivables

Receivables are stated at nominal value less provision for any uncollectible amounts.

3.7 Impairment of financial assets

An assessment of the financial position of each financial asset is made to determine whether there is objective evidence that specific financial assets may be impaired. If such evidence exists, any impairment loss is recognized in profit or loss and other comprehensive income directly and the impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value.
- For assets carried at cost, impairment is the difference between the cost and the present value of future cash flows discounted at the current market rate of return on a similar financial asset.

Impairment losses recognized in prior years are recorded when there is an indication that there is no impairment loss or impairment of the financial asset and that the decrease can be related objectively to an event occurring after the impairment is recognized.

3.8 Property and equipments

Property and equipments are stated at cost less accumulated depreciation. The recoverable value of property and equipment are reviewed at the financial position date. If the recoverable value for property and equipments decrease from the book value, the book value is written down to the recoverable value. If the useful lives are different from its estimated lives then the useful lives are adjusted from the beginning of the year in which the change occurred in without going into retroactively.

Gains or losses in disposal of property and equipments in the statement of profit or loss are recognized by the difference between the net realizable value and net book value.

Labour Fund Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

Property and equipments are depreciated on using the straight line method over their estimated useful lives to allocate their depreciable amounts as follows:

Buildings	20 years
Motor Vehicles	4 years
Furniture & Fixtures	5 years
Computers	3 years

3.9 Impairment of non-financial assets

The carrying amount of the Fund's non-financial assets is reviewed at the statement of financial position date to determine whether there is any objective evidence of impairment. If this evidence is available, the recoverable amount of the asset is estimated and the impairment loss is recognized in profit or loss and other comprehensive income when the carrying amount of the asset exceeds its recoverable amount.

Impairment losses recognized in prior years are recognized as income in the statement of profit or loss and other comprehensive income in the event that there is evidence that the impairment loss previously recognized no longer exists or has decreased.

3.10 Payables

Payables are stated at nominal value.

3.11 Employees' Benefits

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

The entitlement to leave pay is based upon the terms of employment contracts with the employees and length of service. The expected costs of these benefits are accrued at the end of each reporting date period and carried forward until they are utilized.

3.12 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

Fees and other income

Fees and other income are recognized when the Fund's right to receive such income is established.

Profit income

Profit income is accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable.

Labour Fund Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

3.13 Provisions

A provision is recognized when the Fund has a present obligation (legal or constructive) as a result of a past event that may require an outflow of resources included in the economic benefits to settle the obligation. A reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each financial position date and adjusted to show best current rating.

3.14 Foreign currencies

The principal currency used for the Fund is "Bahraini Dinar" and therefore the financial statements are presented in Bahraini Dinars. Transactions in foreign currencies are translated into Bahraini Dinars at the average exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Bahraini Dinars at rates of exchange ruling at the statement of financial position date. Foreign exchange differences are recognized in profit or loss and other comprehensive income.

3.15 Contingencies

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

Labour Fund
Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

4. Furniture and Equipment:

	<u>Lands & buildings</u>	<u>Motor vehicles</u>	<u>Furniture & fixtures</u>	<u>Computers</u>	<u>Projects under progress</u>	<u>Total</u>
Cost:						
Balance as at January 1, 2016	-	-	1,209,928	786,954	180,617	2,177,499
Additions	-	-	19,081	95,953	175,925	290,959
Transfer from projects under progress	-	-	356,542	-	(356,542)	-
Disposals	-	-	-	(24,050)	-	(24,050)
Transferred from HCVT (and its relevant councils)*	2,400,000	18,900	132,788	67,852	10,683	2,630,223
Impairment in assets transferred from HCVT (and its relevant councils)	-	-	(132,788)	(67,852)	(10,683)	(211,323)
Disposal in assets transferred from HCVT (and its relevant councils)	-	(5,810)	-	-	-	(5,810)
Balance as at December 31, 2016	<u>2,400,000</u>	<u>13,090</u>	<u>1,585,551</u>	<u>858,857</u>	<u>-</u>	<u>4,857,498</u>
Accumulated Depreciation:						
Balance as at January 1, 2016	-	-	713,388	560,636	-	1,274,024
Charged for the year	-	-	203,943	112,815	-	316,758
Disposals	-	-	-	(24,050)	-	(24,050)
Transferred from HCVT (and its relevant councils)*	280,500	8,025	113,328	61,406	-	463,259
Impairment in assets transferred from HCVT (and its relevant councils)	-	(4,454)	(113,328)	(61,406)	-	(179,188)
Charged for the year transferred from HCVT (and its relevant councils)	38,250	4,336	-	-	-	42,586
Balance as at December 31, 2016	<u>318,750</u>	<u>7,907</u>	<u>917,331</u>	<u>649,401</u>	<u>-</u>	<u>1,893,389</u>
Nets Book Value:						
Balance as at December 31, 2016	<u>2,081,250</u>	<u>5,183</u>	<u>668,220</u>	<u>209,456</u>	<u>-</u>	<u>2,964,109</u>
Balance as at December 31, 2015	-	-	496,540	226,318	180,617	903,475

* The transferred assets from HCVT (and its relevant councils) (note 1) have been eliminated from the statement of cash flows as they are non-cash transactions.

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Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

5. Related Parties

Government related entities are disclosed under related parties because the same government has control or joint control of, or significant influence over, both the Fund and the other entity.

(a) Balances due from related parties consist of:

	<u>2016</u>	<u>2015</u>
Ministry of Finance	831,000	831,000
Ministry of Labour	600,700	600,700
	<u>1,431,700</u>	<u>1,431,700</u>
Allowance for doubtful receivables	(1,431,700)	(1,431,700)
Labour Market Regulatory Authority (LMRA)	7,442,191	7,200,000
	<u>7,442,191</u>	<u>7,200,000</u>

Due from LMRA represents the outstanding balance of fee income receivable (Note – 5(c)).

(b) Balances due to related parties consist of:

	<u>2016</u>	<u>2015</u>
Social Insurance Organization (Note 13)	1,537,341	1,501,040
Labour Market Regulatory Authority (LMRA)	327,044	554,214
Information Affairs Authority	8,326	30,020
Ministry of Municipalities Affairs and Urban Planning	-	5,438
Bahrain Telecommunications Company (Batelco)	31,934	3,335
Electricity and Water Authority	-	299
Bahrain International Circuit	5,000	-
Supreme Council for Women	10,000	-
Bapco	1,777	-
Bahrain Development Bank	149,948	-
Bahrain Radio & Television	4,000	-
University of Bahrain	5,000	-
	<u>2,080,370</u>	<u>2,094,346</u>

Labour Fund Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

(c) The Fund had the following major transactions with related parties:

	<u>2016</u>	<u>2015</u>
LMRA (fees income)	93,867,123	77,792,554
Social Insurance Organization (Note - 13)	(18,621,352)	(17,840,821)
Bahrain Development Bank	(4,526,383)	(3,014,425)
Quality Assurance Authority for Education	-	(1,673)
King Hamad University Hospital	(155,914)	(909,885)
Bahrain Polytechnic	(3,248)	(52,433)
LMRA (Credit card & collections fees)	(1,304,643)	(1,088,138)

(d) Salaries and allowances to management personnel during the year are as follows:

	<u>2016</u>	<u>2015</u>
Salaries	338,420	158,253
Allowances for attendance of board and committee meetings	-	74,000
	<u>338,420</u>	<u>232,253</u>

6. Other Receivables:

	<u>2016</u>	<u>2015</u>
Prepaid expenses	154,534	83,071
Accrued profit income	209,419	30,215
Deposits with the projects implementers	613,435	2,089,536
Other receivables	11,772	6,332
Companies Subscription Receivables - HCVT (and its relevant councils)	14,316,815	-
	<u>15,305,975</u>	<u>2,209,154</u>
Provision for doubtful debts - HCVT (and its relevant councils)	(5,971,258)	-
	<u>9,334,717</u>	<u>2,209,154</u>

Receivables transferred from HCVT (and its relevant councils) (Note - 1) have been eliminated from statement of cash flows as it's a non-cash transaction.

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Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

7. Cash and Cash Equivalents

	<u>2016</u>	<u>2015</u>
Cash on hand	500	500
Current accounts with banks	12,050,435	1,869,607
Call accounts with banks	18,599,283	13,661,084
Murabaha and Wakala contracts	60,302,066	18,703,280
	<u>90,952,284</u>	<u>34,234,471</u>

Call accounts with banks earn profit at market rate of 1.6% (2015: 1.45%) per annum.

Murabaha and Wakala contracts are placed with local Islamic banks, have original maturity periods of up to three months and earn profit at market rate of 2% (2015: 1.69%) per annum.

8. General reserve

10% from surplus of revenue over expenditures for each year has been transferred to a general reserve. There are no restrictions over the utilization of the general reserve.

9. Accounts payable and accruals

	<u>2016</u>	<u>2015</u>
Accounts payable	744,834	705,477
Accrued expenses	5,427,096	5,524,726
Accruals for employee benefits	1,192,386	854,248
Accruals for Board of Directors' remuneration and Committee meetings	72,000	74,000
Companies reimbursements - HCVT (and its relevant councils)	4,194,608	-
Credit balances transferred from - HCVT (and its relevant councils)	(3,890,369)	-
	<u>7,740,555</u>	<u>7,158,451</u>

Accounts payable represents amounts payable for various projects in progress as at the reporting date.

Labour Fund
Manama – Kingdom of Bahrain

Notes to the financial statements for the year ended December 31, 2016

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10. Fee Income

Fee income represents the Fund's eligibility to an 80% share of fees collected as the following:

- From private sector employers for the issue of work permits and their renewal;
- Agencies and recruitment offices permits;
- Monthly fees of BD 10 for each foreign employee working in the Kingdom of Bahrain. In 2013, the monthly fee income changed by Law to reflect BD 5 for the first five employees and BD 10 for each additional employee.

11. Other Income

	<u>2016</u>	<u>2015</u>
Profit income*	1,081,112	288,259
Revenue from tender documents	5,050	4,345
Gain on disposal of furniture and equipment	-	505
	<u>1,086,162</u>	<u>293,109</u>

*Profit income related to accounts with banks and Murabaha and Wakala contracts.

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Notes to the financial statements for the year ended December 31, 2016

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12. Project Costs:

	<u>2016</u>	<u>2015</u>
Enterprise Support Program	11,791,757	4,763,820
Finance Support Scheme	7,797,286	5,731,713
Professional Certification Scheme	4,101,083	3,276,209
Training levy – BIBF	2,175,718	-
Enterprise Development Program	2,062,000	5,466,227
Career Progression Program	1,951,470	2,171,841
Bahrain shopping Festival	1,579,230	2,454,553
Medical Financing Program	1,494,312	-
Labor Market Observatory	854,366	-
Support of Big Institutions - Al Moayed Group	787,160	-
Training program in the health care sector	638,000	1,202,000
Funding program for pilot training	548,186	-
Cloud Computing Business Expansion Program	493,368	-
Youth City Program 2030 - (2016)	391,800	-
Bachelor of Nursing - Royal University of Surgeons	388,714	115,999
Basic Skills Training Program	386,790	17,664
Business Incubators Program	344,746	213,544
Contemporary Art Exhibition	286,166	-
Master of Public Administration - Institute of Public Administration	240,000	-
ZAYANI IMERYS for smelting metals	220,565	-
Citibank Employment Support Program	206,859	44,547
Summer Program of the Ministry of the Interior at the Police Academy for Emerging Education (2016)	195,183	-
Practical training program for pilots	195,130	1,022,089
Bachelor of General Nursing Program - King Hamad University Hospital	180,960	-
Wage support and training	175,282	-
Accounting Software	172,950	536,150
Project of employment and training in health specialties at King Hamad University Hospital	155,914	921,585
Medical Financing Program	(298,995)	873,136
Specific Council Programs - Specialized Programs by Sector	140,587	-
Royal Medical Services - Bahrain Defense Force	139,828	-
Bahrain Entrepreneurship Award	135,533	-
Enable productivity calculator tool	135,000	-
Bell Racing Helmets International	133,679	101,652
Support Bahraini institutions participating in the exhibition	126,239	-
Training project in the field of aircraft maintenance engineering	123,952	398,983

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Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

Project Costs (Continued)

	<u>2016</u>	<u>2015</u>
Alba Employment and Training Program	120,767	59,222
Empowering the best project plan for students (projects 2 & 3)	120,160	44,482
Bahraini talent development program in the hospitality sector - Western and Le Meridien	118,252	95,137
Bachelor of Nursing General Program - Bahrain Defense Force Hospital	117,432	44,000
Project of recruitment and training in financial accounting	106,100	-
Al Basta Market Fourth Year	100,000	-
Capacity Building Project - National Qualifications Framework	100,000	-
Bahrain Farmers Support Program	83,201	151,955
Ajyal Program for Entrepreneurship and Leadership	(9,516)	-
Creative Merchant Project "+973"	69,000	79,000
Foodcorp LLC	53,235	-
Bahrain Fishermen Support Program	52,775	-
Program to strengthen the ethics of work for school students	51,927	33,211
Al Basta Market Fifth Year	50,000	-
Project link for employment and training	46,892	111,677
Staging Advisory Services Program	45,544	21,556
Flight training program to build graduates' abilities	44,508	73,968
Arab Youth Entrepreneurship Competition	37,723	-
Customer Recruitment and Training Program - Invita Call Center	32,500	43,750
Employment and Training Project for Bahraini Graduates Lawyers	31,581	69,023
Aircraft Recruitment and Training Project	30,000	127,500
Graphic Design Professionals	27,136	242,736
Injaz 2016-2021	25,900	-
Employment Support Program	24,809	297,643
Support the performance of education and training	(1,259)	-
Legal Sector Support Program	24,514	-
Employment & Training Project for Airbus A320 - Gulf Aviation Academy	24,505	65,973
Professional Leadership Skills Program	17,100	11,700
Gulf customers experience	15,472	-
Specific Council Programs - Scholarships	14,795	-
IT Finance Program	14,700	12,082
The Global Talent Program	12,634	-
Business Orientation Program from Mowgli	12,597	-

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Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

Project Costs (Continued)

	<u>2016</u>	<u>2015</u>
Bahrain Talents Development Program - Sofitel	11,790	81,973
Support for troubled companies	(9,100)	18,256
Employment and training program for the automotive industry	8,133	114,218
Batelco internship program	7,090	23,192
Support Bahraini institutions participating in the exhibition	6,913	233,941
International Employment Program	5,970	-
Youth City Program 2030 - (2015)	3,378	300,000
Bahrain Polytechnic Training Program	3,248	52,433
The Kaizen Program	2,632	-
Nasser Center for Vocational Rehabilitation and Training	2,000	-
Professional Certification Program in Human Resources	1,800	81,900
Empowering the best student project plan (my project 4)	1,000	-
Al Basta Project Third Year	-	50,000
Azadea Employment and Training Program	-	26,550
Training Program in Finance and Accounting	-	82,556
Bahrain Skills Development Program - Kempinski	-	12,685
Management Information Systems Program	-	11,365
My Products	-	8,250
Supporting of Big Institutions - NAS	-	235,492
Employment and training project in the multi-Disciplinary technicians program - National Institute for Industrial Training	-	18,014
Draft National Qualifications Framework	-	1,673
Occupational Health and Safety Training Program	-	54,124
Program of Quantity Surveyors	-	120,458
Airbus license and employment project with Air Arabia	-	13,620
Project of recruitment and training in Petroleum Development Company	-	(46,582)
Islamic banking program in the banking and financial sector	-	8,880
Training and employment program in the field of travel and tourism	-	11,684
Program of recruitment and training in warehouse management	-	29,082
Training and Employment Program for Bahraini Engineering Graduates in Yokogawa	-	21,760

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Notes to the financial statements for the year ended December 31, 2016

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Project Costs (Continued)

	<u>2016</u>	<u>2015</u>
Maintenance Engineering for Air Navigation	-	253,675
Global Training Program from AIESEC		46,200
Program of health care staff in cooperation with King Hamad University Hospital	-	(11,700)
Professional Journal Project	-	11,450
Labour Law for Trade Unions	-	82,500
ASRY Recruitment and Training Project	-	71,465
Summer Program of the Ministry of the Interior at the Police Academy for the Education of Youth (2015)	-	193,935
Other projects	-	5,000
	<u>42,110,656</u>	<u>33,114,376</u>

13. Unemployment Insurance Subscriptions

	<u>2016</u>	<u>2015</u>
Unemployment insurance subscriptions	<u>18,621,352</u>	<u>17,840,821</u>

As stipulated in the Unemployment Law promulgated in Decree 87 of 2006, the Fund should contribute 1% unemployment subscriptions to the Social Insurance Organization on behalf of the private sectors employers. The amount payable as at December 31, 2016 of BD 1,537,341 (2015: 1,501,040) represents the subscription amount (Note 5 - b).

14. Salaries, Benefits and Other Remunerations

	<u>2016</u>	<u>2015</u>
Salaries	4,647,691	3,617,032
Staff allowances	994,709	581,845
Social insurance contributions	865,176	687,813
Interest on employees' loans	30,605	38,183
Transport allowances	291,930	234,374
Social allowances	251,950	203,715
Medical insurance	461,015	328,440
Telephone and communications	141,806	111,879
Provision for remuneration of the Board of Directors and the Audit Committee	-	74,000
	<u>7,684,882</u>	<u>5,877,281</u>

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Notes to the financial statements for the year ended December 31, 2016

"All amounts are in Bahraini Dinar unless otherwise stated"

15. General and Administrative Expenses

	<u>2016</u>	<u>2015</u>
Business consulting, legal and professional fees	605,310	409,282
Communication expenses	268,824	192,940
Feasibility studies and research - P&D	18,060	112,128
LMRA credit cards collection fees (Note 5 - c)	1,304,643	1,088,138
Training partner monitoring agency	9,670	44,774
Rentals and utilities	802,132	628,190
Maintenance expenses	294,876	201,713
Information technology system	74,244	105,550
High Council for Vocational Training	564,715	-
Other miscellaneous expenses	429,386	271,572
	<u>4,371,860</u>	<u>3,054,287</u>

16. Commitments and Contingent Liability:

	<u>2016</u>	<u>2015</u>
Commitments:		
Human capital development projects	41,113,041	10,297,498
Private sector support projects	52,364,232	34,080,239
	<u>93,477,273</u>	<u>44,377,737</u>
The above commitment are due as follows:		
Within one year	33,095,899	28,180,114
From one year to 5 years	60,381,374	16,197,623
	<u>93,477,273</u>	<u>44,377,737</u>

The above commitments were calculated based on the management's best estimates, considering the expected expenditures on various projects.

	<u>2016</u>	<u>2015</u>
Contingent liability:		
Financing guarantees	<u>230,000,000</u>	<u>210,000,000</u>

Pursuant to the memorandum of understanding dated July 18, 2007, Ithmaar Bank of Bahrain B.S.C. agreed to grant financing facilities to the companies supported by the Fund to the extent of BD 12.5 million, of which the Fund agreed to guarantee up to 80% of the value of all outstanding amounts due to the bank under the above facilities. The Fund's liability under this guarantee is limited to BD 10 million and will automatically be reduced by any amount paid under this guarantee.

According to the agreement dated July 28, 2015, the Ithmaar Bank of Bahrain B.S.C agreed to grant financing facilities to the companies supported by the Fund to the extent of up to BD 10 million, of which the Fund agreed to guarantee up to 50% of the value of all outstanding amounts due to the bank under the above facilities. The Fund's liability under this guarantee is limited to BD 5 million and will be reduced by 50% of any amounts paid by the beneficiary in accordance with this guarantee.

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According to the agreement dated May 28, 2008 and subsequent amendments on December 1, 2015 and July 18, 2016, the Bahrain Development Bank B.S.C. agreed to grant financing facilities to the small and medium sized companies supported by the Fund to the extent of BD 222 million (December 31, 2015: BD 202 million), of which the Fund agreed to guarantee up to 50% of the value of all outstanding amounts due to the bank under the above facilities. The Fund's liability under this guarantee is limited to BD 111 million (December 31, 2015: BD 101 million) and will be reduced by 50% of any amounts paid by the beneficiary in accordance with this guarantee.

According to the agreement dated January 19, 2010 and subsequent amendment on July 15, 2015 the Bahrain Islamic Bank B.S.C. agreed to grant financing facilities to the companies supported by the Fund to the extent of BD 60 million (December 31, 2015: BD 60 million), of which the Fund agreed to guarantee up to 50% of the value of all outstanding amounts due to the bank under the above facilities. The Fund's liability under this guarantee is limited to BD 30 million (December 31, 2015: BD 30 million) and will be reduced by 50% of any amounts paid by the beneficiary in accordance with this guarantee.

According to the agreement dated July 4, 2010 and subsequent amendment on June 19, 2014, the Bank Muscat International B.S.C. agreed to grant financing facilities to the companies supported by the Fund to the extent of BD 40 million (December 31, 2015: BD 40 million), of which the Fund agreed to guarantee up to 50% of the value of all outstanding amounts due to the bank under the above facilities. The Fund's liability under this guarantee is limited to BD 20 million (December 31, 2015: BD 20 million) and will be reduced by 50% of any amounts paid by the beneficiary in accordance with this guarantee.

According to the agreement dated November 28, 2011, and subsequent amendment on January 6, 2014 the Standard Chartered Bank B.S.C agreed to grant financing facilities to the companies supported by the Fund to the extent of up to BD 15 million, of which the Fund agreed to guarantee up to 50% of the value of all outstanding amounts due to the bank under the above facilities. The Fund's liability under this guarantee is limited to BD 7.5 million and will be reduced by 50% of any amounts paid by the beneficiary in accordance with this guarantee.

According to the agreement dated October 18, 2011, and the subsequent amendment on March 1, 2015, the Khaleeji Commercial Bank B.S.C agreed to grant financing facilities to the companies supported by the Fund to the extent of BD 35 million (December 31, 2015: BD 35 million), out of which the Fund agreed to guarantee up to 50% of the value of all outstanding amounts due to the bank under the above facilities. The Fund's liability under this guarantee is limited to BD 17.5 million (December 31, 2015: BD 17.5 million) and will be reduced by 50% of any amounts paid by the beneficiary in accordance with this guarantee.

According to the agreement dated July 13, 2011, and subsequent amendment on November 11, 2015 the Al Salam Bank B.S.C agreed to grant financing facilities to the companies supported by the Fund for to the extent of BD 8 million (December 31, 2015: BD 8 million) of which the Fund agreed to guarantee up to 50% of the value of all outstanding amounts due to the bank under the above facilities. The Fund's liability under this guarantee is limited to BD 4 million (December 31, 2015: BD 4 million) and will be reduced by 50% of any amounts paid by the beneficiary in accordance with this guarantee.

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According to the agreement dated August 28, 2011, and subsequent amendment on July 28, 2016, the Kuwait Finance House B.S.C agreed to grant financing facilities to the companies supported by the Fund to the extent of BD 30 million (December 31, 2015: BD 10 million), of which the Fund agreed to guarantee up to 50% of the value of all outstanding amounts due to the bank under the above facilities. The Fund's liability under this guarantee is limited to BD 15 million (December 31, 2015: BD 5 million) and will be reduced by 50% of any amounts paid by the beneficiary in accordance with this guarantee.

According to the agreement dated February 9, 2015, and subsequent amendment on December 27, 2015, Al Baraka Islamic Bank agreed to grant financing facilities, to the companies supported by the Fund to the extent of BD 20 million (December 31, 2015: BD 20 million), of which the Fund agreed to guarantee up to 50% of the value of all outstanding amounts due to the Bank under the above facilities. The Fund's liability under this guarantee is limited to BD 10 million (December 31, 2015: BD 10 million) and will be reduced by 50% of any amount paid by the beneficiary in accordance with this guarantee.

17. Financial Instruments:

- **Capital risk management**

The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide benefits for stakeholders.

The capital structure of the Fund consists of available funds. The Fund is debt free at the reporting date.

- **Significant accounting policies**

Significant accounting policies and methods adopted, including the criteria for recognition, basis of measurement, and the basis on which income and expenses are recognized in respect of each class of financial assets and financial liabilities are set out in Note 3.

- **Categories of financial instruments**

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Fund include cash, bank balances, other receivables and due from related parties.

Financial liabilities of the Fund include payables and accrued liabilities and due to related parties.

	<u>2016</u>	<u>2015</u>
Financial assets:		
Receivables at amortized cost (including cash and Bank balances)	106,961,223	41,471,018
Financial liabilities:		
Amortized cost	9,820,925	9,252,797

**Labour Fund
Manama – Kingdom of Bahrain****Notes to the financial statements for the year ended December 31, 2016**

"All amounts are in Bahraini Dinar unless otherwise stated"

Financial Instruments: (Continued)**• Financial risk management objectives**

The Fund's exposure to market risk, credit risk and liquidity risk are described below:

• Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in foreign currency, profit margin rate and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as foreign exchange rates, and profit margin rates and equity prices.

• Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund's financial assets and financial liabilities are denominated in Bahraini Dinars and United States Dollars. As the Bahraini Dinar is pegged to the United States Dollar, balances in the US Dollar are not considered to represent a significant currency risk.

• Profit margin rate risk

Profit margin risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market profit share rates.

The Fund's Murabaha and Wakala contracts carry fixed profit margin rates and mature within three months.

The Fund's exposure to profit margin rates on financial assets is detailed in Note 7.

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"All amounts are in Bahraini Dinar unless otherwise stated"

Financial Instruments: (Continued)

• **Credit risk management**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The concentration of credit risk is disclosed in Note 5 & 6.

In addition, the fund is exposed to credit risk in relation to financial guarantees to financial institutions participating in the Finance scheme. The fund's maximum exposure in this respect is the maximum amount the fund could have to pay if the guarantee is called on (see note 16).

The credit risk on liquid funds is limited because the counterparties are banks with good credit-ratings assigned by international rating agencies. The carrying values of financial assets at the reporting date represent the Fund's maximum exposure to credit risk.

• **Liquidity risk**

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

The Fund's remaining contractual maturity for its non-profit bearing financial liabilities at amortized cost as at December 31, 2016 amounted to BD 9,820,925 (2015: BD 9,252,797).

The Fund's expected maturity for its non-profit earning financial assets and profit earning financial assets as at December 31, 2016 amounted to BD 28,059,874 and BD 78,901,349 respectively (2015: BD 9,106,654 and BD 32,437,433 respectively).

• **Fair value of financial instruments**

The Management consider that the carrying amounts of financial assets and financial liabilities approximate their fair values at the reporting dates.



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