

**BBK B.S.C.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2015**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BBK B.S.C.**

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of BBK B.S.C. ("the Bank") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Board of Directors' responsibility for the financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
BBK B.S.C. (continued)**

**Report on Other Regulatory Requirements**

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), 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 1 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 2015 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.



Partner's registration no. 117  
8 February 2016  
Manama, Kingdom of Bahrain


**BBK B.S.C.**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2015

|   | Note | 2015<br>BD '000  | 2014<br>BD '000  |
|---|------|------------------|------------------|
| <b>ASSETS</b>   |      |                  |                  |
| Cash and balances with central banks                                    | 4    | 286,750          | 278,193          |
| Treasury bills  | 5    | 394,090          | 292,683          |
| Deposits and amounts due from banks and<br>other financial institutions | 6    | 325,096          | 175,896          |
| Loans and advances to customers   | 7    | 1,764,799        | 1,846,462        |
| Non-trading investment securities                                       | 8    | 758,107          | 787,153          |
| Investments in associated companies and joint ventures                  | 9    | 35,823           | 36,537           |
| Interest receivable and other assets                                    | 10   | 56,970           | 58,999           |
| Premises and equipment  | 11   | 24,806           | 25,014           |
| <b>TOTAL ASSETS</b>   |      | <b>3,646,441</b> | <b>3,500,937</b> |
| <b>LIABILITIES AND EQUITY</b>   |      |                  |                  |
| <b>Liabilities</b>  |      |                  |                  |
| Deposits and amounts due to banks<br>and other financial institutions   |      | 179,404          | 313,024          |
| Borrowings under repurchase agreement                                   |      | 174,508          | 37,704           |
| Term borrowings   | 12   | 204,677          | 240,938          |
| Customers' current, savings and other deposits                          | 13   | 2,642,892        | 2,471,077        |
| Interest payable and other liabilities                                  | 14   | 84,226           | 78,842           |
| <b>Total liabilities</b>  |      | <b>3,285,707</b> | <b>3,141,585</b> |
| <b>Equity</b>   |      |                  |                  |
| Share capital   | 15   | 108,165          | 103,014          |
| Treasury stock  | 15   | (4,728)          | (6,951)          |
| Share premium   | 15   | 39,919           | 39,919           |
| Statutory reserve   | 16   | 54,082           | 51,507           |
| General reserve   | 16   | 51,507           | 46,825           |
| Cumulative changes in fair values                                       | 17   | (12,304)         | 17,420           |
| Foreign currency translation adjustments                                |      | (10,635)         | (7,259)          |
| Retained earnings   |      | 102,580          | 82,017           |
| Proposed Appropriations   | 18   | 30,586           | 31,402           |
| <b>ATTRIBUTABLE TO THE OWNERS<br/>OF THE BANK</b>                       |      | <b>359,172</b>   | <b>357,894</b>   |
| Non-controlling interest  |      | 1,562            | 1,458            |
| <b>Total equity</b>   |      | <b>360,734</b>   | <b>359,352</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                     |      | <b>3,646,441</b> | <b>3,500,937</b> |

  
 Murad Ali Murad  
 Chairman

  
 Yusuf Saleh Khalaf  
 Board Member

  
 Abdul Karim Ahmed Bucheery  
 Chief Executive

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

**BBK B.S.C.**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

Year ended 31 December 2015

|   | Note | 2015<br>BD '000 | 2014<br>BD '000 |
|---|------|-----------------|-----------------|
| Interest and similar income                                     | 19   | 114,613         | 108,549         |
| Interest and similar expense                                    |      | (41,907)        | (36,259)        |
| <b>Net interest income</b>                                      |      | <b>72,706</b>   | <b>72,290</b>   |
| Share of profit of associated companies and joint ventures      | 9    | 4,215           | 4,377           |
| Other income  | 20   | 44,219          | 40,879          |
| <b>Total operating income</b>                                   |      | <b>121,140</b>  | <b>117,546</b>  |
| Staff costs   |      | 31,343          | 30,255          |
| Other expenses  |      | 15,267          | 12,640          |
| Depreciation  | 11   | 3,226           | 3,333           |
| Net provision for impairment on loans and advances to customers | 7    | 18,975          | 21,572          |
| Net provision / (write back) for impairment on investments      | 8    | 538             | (784)           |
| <b>Total operating expenses</b>                                 |      | <b>69,349</b>   | <b>67,016</b>   |
| <b>PROFIT BEFORE TAXATION</b>                                   |      | <b>51,791</b>   | <b>50,530</b>   |
| Net tax benefit / (provision)                                   |      | 1,598           | (224)           |
| <b>PROFIT FOR THE YEAR</b>                                      |      | <b>53,389</b>   | <b>50,306</b>   |
| <b>Attributable to:</b>   |      |                 |                 |
| Owners of the Bank  |      | 53,212          | 50,095          |
| Non-controlling interest  |      | 177             | 211             |
|   |      | <b>53,389</b>   | <b>50,306</b>   |
| Basic and diluted earnings per share (BD)                       | 21   | 0.050           | 0.047           |

  
 Murad Ali Murad  
 Chairman

  
 Yusuf Saleh Khalaf  
 Board Member

  
 Abdul Karim Ahmed Bucheery  
 Chief Executive

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

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME**

Year ended 31 December 2015

|   | <i>Note</i> | <b>2015</b><br><b>BD '000</b> | <b>2014</b><br><b>BD '000</b> |
|---|-------------|-------------------------------|-------------------------------|
| <b>Profit for the year</b>  |             | <b>53,389</b>                 | <b>50,306</b>                 |
| <b>Other comprehensive (loss) / income</b>  |             |                               |                               |
| <i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods;</i> |             |                               |                               |
| Foreign currency translation adjustments  |             | <b>(3,376)</b>                | <b>(2,751)</b>                |
| Net movement in cumulative changes in fair values   | 17          | <b>(29,420)</b>               | <b>(7,388)</b>                |
| Fair value changes in cash flow hedges  | 17          | <b>(304)</b>                  | <b>(94)</b>                   |
| <b>Other comprehensive loss for the year</b>  |             | <b>(33,100)</b>               | <b>(10,233)</b>               |
| <b>Total comprehensive income for the year</b>  |             | <b>20,289</b>                 | <b>40,073</b>                 |
| <b>Attributable to:</b>   |             |                               |                               |
| Owners of the Bank  |             | <b>20,112</b>                 | <b>39,862</b>                 |
| Non-controlling interest  |             | <b>177</b>                    | <b>211</b>                    |
|   |             | <b>20,289</b>                 | <b>40,073</b>                 |

# BBK B.S.C.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

| Attributable to the owners of the Bank |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|--|--------------------------|---------------------------|--------------------------|------------------------------|----------------------------|--|--|---------|----------|------------------------------|------------------------------------|------------------|-------------------------------------|-------------------------|
| Note                                   | Share capital<br>BD '000 | Treasury stock<br>BD '000 | Share premium<br>BD '000 | Statutory reserve<br>BD '000 | General reserve<br>BD '000 | Cumulative changes in fair values<br>BD '000 | Foreign currency translation adjustments |         |          | Retained earnings<br>BD '000 | Proposed appropriations<br>BD '000 | Total<br>BD '000 | Non-controlling interest<br>BD '000 | Total equity<br>BD '000 |
|  |                          |                           |                          |                              |                            |  | BD '000                                  | BD '000 | BD '000  |                              |                                    |                  |                                     |                         |
| Balance at 1 January 2014              |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | 93,649                   | (3,014)                   | 39,919                   | 46,825                       | 43,700                     | 24,902                                       | (4,508)                                  |         | 67,747   | 22,989                       | 332,209                            | 718              | 332,927                             |                         |
| Profit for the year                    |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | 50,095   | -                            | 50,095                             | 211              | 50,306                              |                         |
| Other comprehensive loss               |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | (7,482)                                      | (2,751)                                  | -       | -        | -                            | (10,233)                           | -                | (10,233)                            |                         |
| Total comprehensive income             |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | (7,482)                                      | (2,751)                                  |         | 50,095   | -                            | 39,862                             | 211              | 40,073                              |                         |
| Share - based payments                 |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 40                                     | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | 259      | -                            | 259                                | -                | 259                                 |                         |
| Dividends paid                         |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 18                                     | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | -        | (9,249)                      | (9,249)                            | -                | (9,249)                             |                         |
| Stock dividends                        |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 18                                     | 9,365                    | -                         | -                        | -                            | -                          | -  | -  | -       | -        | (9,365)                      | -                                  | -                | -                                   |                         |
| Donations                              |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | -        | (1,250)                      | (1,250)                            | -                | (1,250)                             |                         |
| Movement in treasury stock             |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 15                                     | -                        | (3,937)                   | -                        | -                            | -                          | -  | -  | -       | -        | -                            | (3,937)                            | -                | (3,937)                             |                         |
| Movement in non-controlling interest   |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | (4,682)  | -                            | -                                  | 529              | 529                                 |                         |
| Transfer to statutory reserve          |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 16                                     | -                        | -                         | -                        | 4,682                        | -                          | -  | -  | -       | -        | -                            | -                                  | -                | -                                   |                         |
| Proposed appropriations                |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 18                                     | -                        | -                         | -                        | -                            | 3,125                      | -  | -  | -       | (31,402) | 31,402                       | -                                  | -                | -                                   |                         |
| Transfer to general reserve 2013       |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | -        | (3,125)                      | -                                  | -                | -                                   |                         |
| Balance at 31 December 2014            |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | 103,014                  | (6,951)                   | 39,919                   | 51,507                       | 46,825                     | 17,420                                       | (7,259)                                  |         | 82,017   | 31,402                       | 357,894                            | 1,458            | 359,352                             |                         |
| Profit for the year                    |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | 53,212   | -                            | 53,212                             | 177              | 53,389                              |                         |
| Other comprehensive loss               |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | (29,724)                                     | (3,376)                                  |         | -        | -                            | (33,100)                           | -                | (33,100)                            |                         |
| Total comprehensive income             |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | (29,724)                                     | (3,376)                                  |         | 53,212   | -                            | 20,112                             | 177              | 20,289                              |                         |
| Share - based payments                 |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 40                                     | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | 269      | -                            | 269                                | -                | 269                                 |                         |
| Dividends paid                         |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 18                                     | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | -        | (20,179)                     | (20,179)                           | -                | (20,179)                            |                         |
| Stock dividends                        |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 18                                     | 5,151                    | -                         | -                        | -                            | -                          | -  | -  | -       | -        | (5,151)                      | -                                  | -                | -                                   |                         |
| Donations                              |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | -        | (1,390)                      | (1,390)                            | -                | (1,390)                             |                         |
| Movement in treasury stock             |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 15                                     | -                        | 2,223                     | -                        | -                            | -                          | -  | -  | -       | -        | -                            | 2,223                              | -                | 2,223                               |                         |
| Unclaimed dividends                    |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 15                                     | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | 243      | -                            | 243                                | -                | 243                                 |                         |
| Movement in non-controlling interest   |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | -        | -                            | -                                  | (73)             | (73)                                |                         |
| Transfer to statutory reserve          |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 16                                     | -                        | -                         | -                        | 2,575                        | -                          | -  | -  | -       | (2,575)  | -                            | -                                  | -                | -                                   |                         |
| Proposed appropriations                |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
| 18                                     | -                        | -                         | -                        | -                            | -                          | -  | -  | -       | (30,586) | 30,586                       | -                                  | -                | -                                   |                         |
| Transfer to general reserve 2014       |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | -                        | -                         | -                        | -                            | 4,682                      | -  | -  | -       | -        | (4,682)                      | -                                  | -                | -                                   |                         |
| Balance at 31 December 2015            |                          |                           |                          |                              |                            |  |  |         |          |                              |                                    |                  |                                     |                         |
|  | 108,165                  | (4,728)                   | 39,919                   | 54,082                       | 51,507                     | (12,304)                                     | (10,635)                                 |         | 102,580  | 30,586                       | 359,172                            | 1,562            | 360,734                             |                         |

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended 31 December 2015

|   | Note | 2015<br>BD '000 | 2014<br>BD '000 |
|---|------|-----------------|-----------------|
| <b>OPERATING ACTIVITIES</b>   |      |                 |                 |
| Profit for the year before taxation                                       |      | 51,791          | 50,530          |
| Adjustments for non-cash items:   |      |                 |                 |
| Net provisions (write back) relating to:                                  |      |                 |                 |
| Loans and advances to customers   | 7    | 18,975          | 21,572          |
| Non-trading investment securities   | 8    | 538             | (784)           |
| Share of profit of associated companies and joint ventures                | 9    | (4,215)         | (4,377)         |
| Depreciation  | 11   | 3,226           | 3,333           |
| Realised gains on sale of non-trading investment securities               | 20   | (4,408)         | (3,826)         |
| Accrual on term borrowings  |      | 1,439           | 1,440           |
|   |      | <b>67,346</b>   | <b>67,888</b>   |
| <b>(Increase) decrease in operating assets</b>                            |      |                 |                 |
| Mandatory reserve deposits with central banks                             |      | (6,277)         | (10,170)        |
| Treasury bills maturing after 90 days                                     |      | (100,790)       | 20,524          |
| Deposits and amounts due from banks and other financial institutions      |      | 28,378          | (12,160)        |
| Loans and advances to customers   |      | 62,688          | (249,499)       |
| Interest receivable and other assets                                      |      | 1,725           | (16,810)        |
| <b>Increase (decrease) in operating liabilities</b>                       |      |                 |                 |
| Deposits and amounts due to banks and other financial institutions        |      | (133,620)       | 131,495         |
| Borrowings under repurchase agreements                                    |      | 136,804         | (18,603)        |
| Customers' current, savings and other deposits                            |      | 171,815         | 118,170         |
| Interest payable and other liabilities                                    |      | 5,384           | 11,346          |
| Income tax paid   |      | (444)           | (659)           |
| Net cash from operating activities  |      | <b>233,009</b>  | <b>41,522</b>   |
| <b>INVESTING ACTIVITIES</b>   |      |                 |                 |
| Purchase of non-trading investment securities                             |      | (246,015)       | (265,615)       |
| Sale of non-trading investment securities                                 |      | 252,152         | 220,140         |
| Sale / partial repayment of capital of investment in associated companies | 9    | 3,000           | 22,890          |
| Dividends received from associated companies                              | 9    | 1,835           | 1,636           |
| Other movements in investment in associated companies                     |      | 9               | 1,399           |
| Movement in non-controlling interest                                      |      | (73)            | 529             |
| Purchase of premises and equipment  |      | (3,018)         | (2,211)         |
| Net cash from / (used in) investing activities                            |      | <b>7,890</b>    | <b>(21,232)</b> |
| <b>FINANCING ACTIVITIES</b>   |      |                 |                 |
| Payment of dividend and donations   | 18   | (21,569)        | (10,499)        |
| Term borrowings   |      | (37,700)        | -               |
| Movement in treasury stock  |      | 2,223           | (3,937)         |
| Net cash used in financing activities                                     |      | <b>(57,046)</b> | <b>(14,436)</b> |
| Foreign currency translation adjustments                                  |      | <b>(3,376)</b>  | <b>(2,751)</b>  |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                            |      | <b>180,477</b>  | <b>3,103</b>    |
| Cash and cash equivalents at beginning of the year                        |      | <b>352,639</b>  | <b>349,536</b>  |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>                       | 23   | <b>533,116</b>  | <b>352,639</b>  |

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



**1 ACTIVITIES**

BBK B.S.C. (the "Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry and Commerce under Commercial Registration number 1234 dated 16 March 1971. The Bank operates in Bahrain under a commercial banking license issued by the Central Bank of Bahrain ("CBB") and its shares are listed on the Bahrain Bourse.

The Bank is engaged in commercial banking activities through its branches in the Kingdom of Bahrain, State of Kuwait and Republic of India and credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P O Box 597, Manama, Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 8 February 2016.

**2 BASIS OF PREPARATION****Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 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.

**Accounting convention**

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, available-for-sale investment securities, trading investments and financial assets held at fair value through statement of profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are prepared in Bahraini Dinars which is the functional and presentation currency of the Bank.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"), all of which have 31 December as their year end. The Bank has the following principal subsidiaries:

| <i>Name</i>               | <i>Ownership</i> | <i>Country of<br/>incorporation</i> | <i>Activity</i>                          |
|---------------------------|------------------|-------------------------------------|--|
| CrediMax B.S.C. (c)       | 100%             | Kingdom of Bahrain                  | Credit card operations                   |
| Invita Company B.S.C. (c) | 100%             | Kingdom of Bahrain                  | Business process<br>outsourcing services |

CrediMax B.S.C. (c) owns 55% (2014: 55%) of the share capital of Global Payment Services W.L.L., which is established in the Kingdom of Bahrain and engaged in processing and backup services relating to credit, debit and charge cards.

Invita Company B.S.C. (c) owns 60% (2014: 60%) of the share capital of Invita Kuwait K.S.C.C. , which is established in the State of Kuwait and engaged in business processing and outsourcing services.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

**2 BASIS OF PREPARATION (continued)****Basis of consolidation (continued)**

- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

**3 ACCOUNTING POLICIES****3.1 New and amended standards and interpretations issued and effective**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of each new standard or amendment is described below:

***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

### 3 ACCOUNTING POLICIES (continued)

#### 3.1 New and amended standards and interpretations issued and effective (continued)

##### *Annual Improvements 2010-2012 Cycle*

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

##### *IFRS 2 Share-based Payment*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Group had not granted any awards during the second half of 2014. Thus, these amendments did not impact the Group's consolidated financial statements or its accounting policies.

##### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

##### *IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are 'similar'; and
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 22 in these consolidated financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of her decision making.

##### *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the year.

##### *IAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

##### *Annual Improvements 2011-2013 Cycle*

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**3 ACCOUNTING POLICIES (continued)**

**3.1 New and amended standards and interpretations issued and effective (continued)**

*IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3; and
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The above amendment is not relevant for the Group as of 31 December 2015.

*IFRS 13 Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

*IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e. property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

**3.2 New standards and amendments issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the effective date.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the effective date.

**3 ACCOUNTING POLICIES (continued)****3.2 New standards and amendments issued but not yet effective (continued)***Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

*Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are currently being assessed if they have any impact on the Group.

*Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statements of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to consolidated financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are currently being assessed if they have any impact on the Group.

*Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are currently being assessed if they have any impact on the Group.

*IFRS 16 - Leases*

The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The standard currently being assessed if it has any impact on the Group.

**3 ACCOUNTING POLICIES (continued)****3.2 New standards and amendments issued but not yet effective (continued)***Annual Improvements 2012-2014 Cycle*

These improvements are effective for annual periods beginning on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits
- IAS 34 Interim Financial Reporting

**3.3 Summary of significant accounting policies****Financial instruments**

All financial instruments are initially recognised at the fair value of consideration given, including acquisition costs associated with the investment, except in case of trading investments, where the acquisition costs are expensed in the consolidated statement of profit or loss.

**Trading investments**

Trading investments are subsequently measured at fair value with any gain or loss arising from a change in fair value being included in the consolidated statement of profit or loss in the period in which it arises. Interest earned or dividends received are included in net trading income.

**Financial assets designated at fair value through statement of profit or loss**

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows, that would not be separately recorded.

Financial assets at fair value through statement of profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in 'net gain or loss on financial assets designated at fair value through statement of profit or loss. Interest earned is accrued in interest income, while dividend income is recorded in other income. The Group has not designated any financial assets at fair value through profit or loss.

**Deposits and due from banks and other financial institutions**

These are stated at cost, adjusted for effective fair value hedges, less any amounts written off and provision for impairment.

**Loans and advances to customers**

Loans and advances to customers are stated at amortised cost, adjusted for effective fair value hedges, net of interest suspended, provision for impairment and any amounts written off.

**Non-trading investment securities**

These include bonds, equities, managed funds and other investments. Investments in managed funds comprise investments in mutual funds, private equity, real estate and credit structured products.

These are classified as follows:

- Investments carried at amortised cost
- Available-for-sale

**3 ACCOUNTING POLICIES (continued)****3.3 Summary of significant accounting policies (continued)****Non-trading investment securities (continued)***Investments carried at amortised cost*

Debt instruments which could be classified as loans and advances and which have fixed or determinable payments but are not quoted in an active market are treated as investments and carried at amortised cost, adjusted for effective fair value hedges, less provision for impairment. Premiums and discounts on non-trading investments with fixed or determinable repayments are amortised, using the effective interest rate method, and taken to interest income.

*Available-for-sale*

All other investments are classified as "available-for-sale". After initial recognition, available-for-sale investments are subsequently measured at fair value, unless fair value cannot be reliably measured in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity as cumulative changes in fair value 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 "cumulative changes in fair value" within equity, is included in the consolidated statement of profit or loss for the year.

That portion of any fair value changes relating from an effective hedging relationship is recognised directly in the consolidated statement of profit or loss.

**Fair value measurement**

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 39.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability, the principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid priced respectively at the close of business on the statement of position date.

In case of unquoted investments, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

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

**3 ACCOUNTING POLICIES (continued)****3.3 Summary of significant accounting policies (continued)****Fair value measurement (continued)**

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's Risk Management determines the policies and procedures for fair value measurement. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

**Impairment and uncollectability of financial assets**

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

***(i) Financial assets carried at amortised cost***

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to provision for impairment.

The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.



**3 ACCOUNTING POLICIES (continued)****3.3 Summary of significant accounting policies (continued)****Impairment and uncollectability of financial assets (continued)***(i) Financial assets carried at amortised cost (continued)*

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*(ii) Available-for-sale financial assets*

For available-for-sale investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss on the investment previously recognised in the consolidated statement of profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest. If in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss. Increases in fair value after impairment are recognised directly in equity.

*(iii) Renegotiated loans*

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

**3 ACCOUNTING POLICIES (continued)****3.3 Summary of significant accounting policies (continued)****Term borrowings**

Financial instruments or their components issued by the Group, which are not designated at fair value through consolidated statement of profit or loss, are classified as liabilities under 'term borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

**Derecognition of financial assets and financial liabilities***Financial assets*

A financial asset (in whole or in part) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

**Investment in associated companies and joint ventures**

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost.

The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement 'have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

**3 ACCOUNTING POLICIES (continued)****3.3 Summary of significant accounting policies (continued)****Investment in associated companies and joint ventures (continued)**

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as the 'Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

**Premises and equipment**

All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life.

**Collateral pending sale**

The Group occasionally acquires real estate in settlement of certain loans and advances to customers. Such real estate is stated at the lower of the carrying value of the related facility and the current fair value of the collateral acquired, assessed on an individual basis. If the current fair value for any individual asset is lower, a provision is created. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of profit or loss.

**Deposits**

All money market and customer deposits are carried at the fair value of consideration received, adjusted for effective hedges, less amounts repaid.

**Repurchase and resale agreements**

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net interest income'.

**3 ACCOUNTING POLICIES (continued)****3.3 Summary of significant accounting policies (continued)****Taxation**

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

**Employees' end of service benefits**

Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in each location.

**Share-based payment transactions**

For equity-settled share-based payment transactions the Group measures the services received, and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value so calculated at the grant date is recognised as an expense in the consolidated statement of profit or loss over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of profit or loss.

**Provisions**

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

**Treasury stock**

Treasury stock is deducted from equity and is stated at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

**Proposed dividends**

Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders. The payment of a dividend also requires the prior approval of the CBB.

**Financial guarantees**

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss in 'net provision for impairment'. The premium received is recognised in the consolidated statement of profit or loss in 'fee and commission income' on a straight line basis over the life of the guarantee.

**Derivatives**

The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in 'other assets' and derivatives with negative market values are included in 'other liabilities' in the consolidated statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

**Hedge accounting**

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

**3 ACCOUNTING POLICIES (continued)****3.3 Summary of significant accounting policies (continued)****Hedge accounting (continued)**

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

A formal assessment is also undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. Hedges are formally assessed each quarter to reconfirm their effectiveness.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

*Fair value hedges*

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of profit or loss. The hedged item is adjusted for fair value changes and the difference relating to the risk being hedged is recognised in the consolidated statement of profit or loss.

*Cash flow value hedges*

In relation to cash flow hedges which meet the conditions for hedge accounting the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the consolidated statement of profit or loss. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss for the year.

*Discontinuation of hedges*

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of profit or loss.

**Fiduciary assets**

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

**Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

**3 ACCOUNTING POLICIES (continued)****3.3 Summary of significant accounting policies (continued)****Recognition of income and expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become impaired, such as when overdue by more than ninety days. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value based on the original effective interest rate.

Interest expense is recognised using the effective yield method.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Other fees receivable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap until the hedges are effective.

**Foreign currencies***(i) Transactions and balances*

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to 'other income' in the consolidated statement of profit and loss, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

*(ii) Group companies*

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity through the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

**3 ACCOUNTING POLICIES (continued)****3.3 Summary of significant accounting policies (continued)****Cash and cash equivalents**

Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions with original maturities of ninety days or less.

**Trade date accounting and settlement date accounting**

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**3.4 Significant accounting judgments and estimates**

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

*Going concern*

The Group's management has made an assessment of the Group's ability to continue as 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.

*Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

*Classification of investments*

Management decides on acquisition of an investment whether it should be classified as held for trading, held to maturity, available-for-sale, fair value through statement of profit or loss or investments carried at amortised cost.

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit.

The Group classifies debt instruments as carried at amortised cost if the debt instruments are not quoted in an active market.

The Group classifies investments which it intends and has the ability to hold to maturity as held-to-maturity.

The Group classifies financial instruments which contain embedded derivatives which cannot be separated from the host instrument as carried at fair value through statement of profit or loss.

All other investments are classified as available-for-sale.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**3 ACCOUNTING POLICIES (continued)****3.4 Significant accounting judgments and estimates (continued)***Impairment losses on loans and advances and investments*

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, concentrations of risks and economic data.

*Collective impairment provisions on loans and advances*

In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against groups of loans and advances which have not been identified for allocating specific provision but carry higher risk of default than originally perceived when the assets were booked.

*Impairment of non-trading investment securities*

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and the extent to which the fair value of an investment is less than its cost.

**4 CASH AND BALANCES WITH CENTRAL BANKS**

|  | 2015<br>BD '000 | 2014<br>BD '000 |
|--|-----------------|-----------------|
| Cash   | 17,636          | 17,685          |
| Current accounts and placements with central banks | 186,716         | 184,387         |
| Mandatory reserve deposits with central banks      | 82,398          | 76,121          |
|  | <u>286,750</u>  | <u>278,193</u>  |

Mandatory reserve deposits are not available for use in the Group's day to day operations.

**5 TREASURY BILLS**

These are short term treasury bills issued by the Government of the Kingdom of Bahrain and Republic of India, carried at amortised cost.

**6 DEPOSITS AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

|  | 2015<br>BD '000 | 2014<br>BD '000 |
|--|-----------------|-----------------|
| Deposits with banks and other financial institutions | 264,359         | 150,921         |
| Other amounts due from banks                         | 60,737          | 24,975          |
|  | <u>325,096</u>  | <u>175,896</u>  |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

## 7 LOANS AND ADVANCES TO CUSTOMERS

|                                 | 2015<br>BD '000  | 2014<br>BD '000  |
|---------------------------------|------------------|------------------|
| Commercial loans and overdrafts | 1,491,342        | 1,620,629        |
| Consumer loans                  | 372,297          | 312,586          |
|                                 | <u>1,863,639</u> | <u>1,933,215</u> |
| Less: Allowance for impairment  | (98,840)         | (86,753)         |
|                                 | <u>1,764,799</u> | <u>1,846,462</u> |

Movements in allowance for impairment are as follows:

|  | 2015   |                              |                  |
|--|--|------------------------------|------------------|
|  | Commercial<br>loans and<br>overdrafts<br>BD '000 | Consumer<br>loans<br>BD '000 | Total<br>BD '000 |
| Balance at 1 January   | 73,770   | 12,983                       | 86,753           |
| Charge for the year  | 20,144   | 2,605                        | 22,749           |
| Recoveries / write-backs   | (3,034)  | (740)                        | (3,774)          |
| Amounts written off during the year                              | (2,835)  | (902)                        | (3,737)          |
| Foreign exchange and other movements                             | (3,100)  | (51)                         | (3,151)          |
| Balance at 31 December   | <u>84,945</u>                                    | <u>13,895</u>                | <u>98,840</u>    |
| Individual impairment  | 51,368   | 10,275                       | 61,643           |
| Collective impairment  | 33,577   | 3,620                        | 37,197           |
| Gross amount of loans, individually<br>determined to be impaired | <u>66,926</u>                                    | <u>15,761</u>                | <u>82,687</u>    |
|  | 2014   |                              |                  |
|  | Commercial<br>loans and<br>overdrafts<br>BD '000 | Consumer<br>loans<br>BD '000 | Total<br>BD '000 |
| Balance at 1 January   | 63,088   | 13,786                       | 76,874           |
| Charge for the year  | 23,121   | 962                          | 24,083           |
| Recoveries / write-backs   | (1,718)  | (793)                        | (2,511)          |
| Amounts written off during the year                              | (9,786)  | (972)                        | (10,758)         |
| Interest recovered on impaired loans                             | (661)  | -                            | (661)            |
| Exchange and other movements                                     | (274)  | -                            | (274)            |
| Balance at 31 December   | <u>73,770</u>                                    | <u>12,983</u>                | <u>86,753</u>    |
| Individual impairment  | 42,591   | 9,957                        | 52,548           |
| Collective impairment  | 31,179   | 3,026                        | 34,205           |
| Gross amount of loans, individually<br>determined to be impaired | <u>76,708</u>                                    | <u>13,214</u>                | <u>89,922</u>    |

At 31 December 2015, interest in suspense on past due loans that are fully impaired amounts to BD 17,680 thousand (31 December 2014: BD 15,394 thousand), effective 31 January 2014 the Bank has treated this as a memorandum account.

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2015 amounts to BD 62,447 thousand (2014: BD 77,820 thousand).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**7 LOANS AND ADVANCES TO CUSTOMERS (continued)**

At 31 December 2015, loans and advances includes Islamic financing facilities provided by the Group to corporates amounting BD 122,879 thousand (2014: BD 155,321 thousand). These mainly consists of Murabaha and Ijarah financing facilities of which non are past due or impaired as at 31 December 2015.

**8 NON-TRADING INVESTMENT SECURITIES**

|                                    | <i>Available-<br/>for-sale</i> | <i>Carried at<br/>amortised<br/>cost</i> | <i>Total<br/>2015</i> | <i>Total<br/>2014</i> |
|------------------------------------|--------------------------------|--|-----------------------|-----------------------|
|                                    | <i>BD '000</i>                 | <i>BD '000</i>                           | <i>BD '000</i>        | <i>BD '000</i>        |
| <b>Quoted investments</b>          |                                |  |                       |                       |
| Government bonds                   | 355,829                        | 1,976                                    | 357,805               | 334,828               |
| Other bonds                        | 216,447                        | -  | 216,447               | 257,625               |
| Equities                           | 71,249                         | -  | 71,249                | 80,532                |
|                                    | <b>643,525</b>                 | <b>1,976</b>                             | <b>645,501</b>        | <b>672,985</b>        |
| <b>Unquoted investments</b>        |                                |  |                       |                       |
| Government bonds                   | 71,633                         | 9,500                                    | 81,133                | 87,407                |
| Other bonds                        | 30,659                         | 71                                       | 30,730                | 28,824                |
| Equities                           | 41,210                         | -  | 41,210                | 37,373                |
| Managed funds                      | 2,598                          | -  | 2,598                 | 4,347                 |
|                                    | <b>146,100</b>                 | <b>9,571</b>                             | <b>155,671</b>        | <b>157,951</b>        |
|                                    | <b>789,625</b>                 | <b>11,547</b>                            | <b>801,172</b>        | <b>830,936</b>        |
| Allowance for impairment           | (43,065)                       | -  | (43,065)              | (43,783)              |
| <b>Balance at 31 December 2015</b> | <b>746,560</b>                 | <b>11,547</b>                            | <b>758,107</b>        |                       |
| Balance at 31 December 2014        | 765,353                        | 21,800                                   |                       | 787,153               |

Included under available-for-sale investments are unquoted equities and managed funds investments amounting to BD 25,284 thousand (2014: BD 26,995 thousand), which are recorded at cost less impairment since their fair value cannot be reliably estimated. There is no market for these investments and the Group intends to hold them for the long term.

The movements in allowance for impairment of non-trading investment securities are as follows:

|                               | <i>2015</i>    | <i>2014</i>    |
|-------------------------------|----------------|----------------|
|                               | <i>BD '000</i> | <i>BD '000</i> |
| Balance at 1 January          | 43,783         | 49,282         |
| Charge for the year           | 2,822          | 132            |
| Recoveries                    | (2,284)        | (2,156)        |
| Amounts written off           | (1,211)        | (2,966)        |
| Exchange and other movements  | (45)           | (509)          |
| <b>Balance at 31 December</b> | <b>43,065</b>  | <b>43,783</b>  |

**9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES**

The Group has a 23.03% (2014: 23.03%) shareholding in Bahrain Commercial Facilities Company B.S.C. ("BCFC"), incorporated in the Kingdom of Bahrain, which is engaged in consumer financing, insurance, dealing in real estate and automobiles.

The Group has a 50% (2014: 50%) stake in Sakana Holistic Housing Solutions B.S.C. (c) ("Sakana"), a jointly controlled company incorporated in the Kingdom of Bahrain which is engaged in Islamic real estate financing.

The Group has a 22% (2014: 22%) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES (continued)**

The Group has a 35% (2014: 35%) equity stake in Diyar Al Haremeen Al Ola Limited ("Diyar"), a company incorporated in the Cayman Islands. Diyar holds 100% beneficial interest in a hotel in Makkah, Kingdom of Saudi Arabia.

The Group has a 40% (2014: 40%) stake in BBK Geojit securities K.S.C., a jointly controlled company incorporated in the State of Kuwait.

The following tables illustrate the summarised financial information of the Group's interest in its associated companies and joint ventures:

|  | <b>2015</b><br><b>BD '000</b> | <b>2014</b><br><b>BD '000</b> |
|--|-------------------------------|-------------------------------|
| <i>Carrying amount of investment in associated companies and joint ventures</i>          |                               |                               |
| At 1 January   | <b>36,537</b>                 | 57,869                        |
| Share of profit  | <b>4,215</b>                  | 4,377                         |
| Dividends received from associated companies   | <b>(1,835)</b>                | (1,636)                       |
| Change in unrealised fair values - associated companies (note 17)                        | <b>(85)</b>                   | 216                           |
| Change in Foreign exchange translation adjustments                                       | <b>(9)</b>                    | (159)                         |
| Sold during the year   | <b>(3,000)</b>                | (22,890)                      |
| Provision charges during the year  | <b>-</b>                      | (1,240)                       |
| At 31 December   | <b>35,823</b>                 | 36,537                        |
|  | <b>2015</b><br><b>BD '000</b> | <b>2014</b><br><b>BD '000</b> |
| <i>Share of associated companies and joint ventures statements of financial position</i> |                               |                               |
| Current and non-current assets   | <b>76,577</b>                 | 72,703                        |
| Current and non-current liabilities  | <b>(40,754)</b>               | (36,166)                      |
| Net assets   | <b>35,823</b>                 | 36,537                        |
| <i>Share of associated companies and joint ventures revenues</i>                         |                               |                               |
| Revenue  | <b>10,124</b>                 | 7,881                         |

Investment in associated companies and joint ventures includes the Group investment in BCFC which is considered to be a material associate. The following table illustrates the financial information of the Group's investment in BCFC:

|                                      | <b>2015</b><br><b>BD '000</b> | <b>2014</b><br><b>BD '000</b> |
|--------------------------------------|-------------------------------|-------------------------------|
| Net interest income                  | <b>17,421</b>                 | 14,401                        |
| Gross profit on automotive sales     | <b>10,715</b>                 | 10,815                        |
| Other operating income               | <b>7,238</b>                  | 8,208                         |
| Total operating income               | <b>35,374</b>                 | 33,424                        |
| Operating expense                    | <b>(18,317)</b>               | (16,577)                      |
| Other expense                        | <b>(1,551)</b>                | (1,445)                       |
| Profit for the year                  | <b>15,506</b>                 | 15,402                        |
| Group's share of profit for the year | <b>3,571</b>                  | 3,547                         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES (continued)**

|                                     | <b>2015</b>    | <b>2014</b>    |
|-------------------------------------|----------------|----------------|
|                                     | <b>BD '000</b> | <b>BD '000</b> |
| <b>Assets</b>                       |                |                |
| Cash and balances with banks        | <b>2,206</b>   | 1,185          |
| Loans and advances to customers     | <b>222,762</b> | 195,524        |
| Inventories                         | <b>24,274</b>  | 24,621         |
| Other assets                        | <b>38,278</b>  | 34,889         |
| <b>Total assets</b>                 | <b>287,520</b> | 256,219        |
| <b>Liabilities</b>                  |                |                |
| Bank overdrafts                     | <b>1,328</b>   | 1,512          |
| Trade and other payables            | <b>19,469</b>  | 12,816         |
| Bank term loans                     | <b>117,503</b> | 120,261        |
| Bonds issued                        | <b>39,753</b>  | 19,790         |
| <b>Total liabilities</b>            | <b>178,053</b> | 154,379        |
| <b>Donation reserve</b>             | <b>(838)</b>   | (998)          |
| <b>Equity</b>                       | <b>108,629</b> | 100,842        |
| Proportion of the Group's ownership | <b>23.03%</b>  | 23.03%         |
|                                     | <b>25,017</b>  | 23,224         |

The figures reported above for BCFC are based on 30 September 2015 reviewed financial statements adjusted for expected performance in the last quarter.

The market value of the Group's investment in BCFC is BD 28,778 thousand (2014: BD 26,333 thousand) compared to the carrying value of BD 25,017 thousand (2014: BD 23,224 thousand) as at 31 December 2015.

**10 INTEREST RECEIVABLE AND OTHER ASSETS**

|  | <b>2015</b>    | <b>2014</b>    |
|--|----------------|----------------|
|  | <b>BD '000</b> | <b>BD '000</b> |
| Interest receivable                          | <b>17,350</b>  | 14,236         |
| Accounts receivable                          | <b>18,664</b>  | 19,674         |
| Positive fair value of derivatives (note 26) | <b>2,336</b>   | 2,987          |
| Prepaid expenses                             | <b>2,185</b>   | 1,228          |
| Deferred tax                                 | <b>2,991</b>   | 806            |
| Collateral pending sale                      | <b>4,784</b>   | 1,534          |
| Other  | <b>8,660</b>   | 18,534         |
|  | <b>56,970</b>  | 58,999         |

**11 PREMISES AND EQUIPMENT**

|                          | <i>Freehold<br/>land</i> | <i>Properties<br/>and<br/>buildings</i> | <i>Furniture<br/>and<br/>equipment</i> | <i>Capital<br/>work in<br/>progress</i> | <i>Total</i>   |
|--------------------------|--------------------------|---|--|---|----------------|
|                          | <i>BD '000</i>           | <i>BD '000</i>                          | <i>BD '000</i>                         | <i>BD '000</i>                          | <i>BD '000</i> |
| <b>Net book value at</b> |                          |   |  |   |                |
| <b>31 December 2015</b>  | <b>8,260</b>             | <b>11,370</b>                           | <b>5,051</b>                           | <b>125</b>                              | <b>24,806</b>  |
| <b>Net book value at</b> |                          |   |  |   |                |
| <b>31 December 2014</b>  | <b>8,343</b>             | <b>11,967</b>                           | <b>4,462</b>                           | <b>242</b>                              | <b>25,014</b>  |

The depreciation charge for the year amounted to BD 3,226 thousand (2014: BD 3,333 thousand).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**12 TERM BORROWINGS**

The term borrowings were obtained for general financing purposes and comprise:

| <i>Amount of facility<br/>US\$ '000</i> | <i>Rate of interest</i> | <i>Maturity<br/>Year</i> | <b>2015<br/>BD '000</b> | <b>2014<br/>BD '000</b> |
|---|-------------------------|--------------------------|-------------------------|-------------------------|
| 145,140                                 | Libor + 0.75%           | 2017                     | 8,509                   | 8,509                   |
| 129,860                                 | Libor + 1.75%           | 2018                     | 45,368                  | 43,929                  |
| 500,000                                 | 4.50%                   | 2015                     | -                       | 188,500                 |
| 400,000                                 | 3.50%                   | 2020                     | 150,800                 | -                       |
|   |                         |                          | <b>204,677</b>          | <b>240,938</b>          |

**13 CUSTOMERS' CURRENT, SAVINGS AND OTHER DEPOSITS**

|                  | <b>2015<br/>BD '000</b> | <b>2014<br/>BD '000</b> |
|------------------|-------------------------|-------------------------|
| Term deposits    | 1,497,279               | 1,525,346               |
| Current accounts | 608,957                 | 491,796                 |
| Savings accounts | 440,189                 | 376,705                 |
| Other accounts   | 96,467                  | 77,230                  |
|                  | <b>2,642,892</b>        | <b>2,471,077</b>        |

**14 INTEREST PAYABLE AND OTHER LIABILITIES**

|  | <b>2015<br/>BD '000</b> | <b>2014<br/>BD '000</b> |
|--|-------------------------|-------------------------|
| Accrued expenses                             | 33,996                  | 35,409                  |
| Interest payable                             | 16,728                  | 10,949                  |
| Accounts payable                             | 14,634                  | 14,346                  |
| Negative fair value of derivatives (note 26) | 12,490                  | 12,368                  |
| Other  | 6,378                   | 5,770                   |
|  | <b>84,226</b>           | <b>78,842</b>           |

**15 EQUITY**

| <i>Share capital</i>   | <b>2015<br/>BD '000</b> | <b>2014<br/>BD '000</b> |
|--|-------------------------|-------------------------|
| <i>Authorised</i>  |                         |                         |
| 1,500,000,000 shares of BD 0.100 each                              | <b>150,000</b>          | <b>150,000</b>          |
| <i>Issued and fully paid</i>                                       |                         |                         |
| 1,081,647,952 shares (2014: 1,030,140,907 shares) of BD 0.100 each | <b>108,165</b>          | <b>103,014</b>          |
| <i>Treasury stock*</i>   | <b>(4,728)</b>          | <b>(6,951)</b>          |

\* Treasury stock represents the purchase by the Bank of its own shares. At the end of the year, the Bank held 17,195,500 (2014: 21,206,125) of its own shares, inclusive of bonus shares issued during 2015.

*Share premium*

The share premium arising on issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

*Employee Performance Share Plan*

The Group has an Employee Performance Share Plan under which shares are granted to certain eligible employees (note 40).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**15 EQUITY (continued)***Unclaimed dividends*

During the year, the Group transferred BD 243 thousand to equity as unclaimed dividends by the shareholders. As per the Group policy and procedures, any unclaimed dividends in excess of 10 years are transferred to equity, however will be available to the respective shareholder for any future claims.

**16 RESERVES***Statutory reserve*

The statutory reserve has been created in accordance with the Bahrain Commercial Companies Law. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. During the year the Bank transferred only BD 2,575 thousand (2014: BD 4,682 thousand) as the statutory reserve reached 50% of the issued share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

*General reserve*

The general reserve has been built up in accordance with the provisions of the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank. The general reserve is distributable subject to the approval of the Central Bank of Bahrain.

**17 CUMULATIVE CHANGES IN FAIR VALUES**

|  | 2015<br>BD '000 | 2014<br>BD '000 |
|--|-----------------|-----------------|
| <b><i>Available-for-sale investments</i></b>                           |                 |                 |
| At 1 January   | 17,350          | 24,738          |
| Realised gains on sale of non-trading investment securities            | (3,813)         | (3,519)         |
| Transferred to consolidated statement of profit and loss on impairment | 1,094           | 11              |
| Change in unrealised fair values during the year                       | (26,701)        | (3,880)         |
| At 31 December   | (12,070)        | 17,350          |
| <b><i>Cash flow hedges</i></b>   |                 |                 |
| At 1 January   | 70              | 164             |
| Change in unrealised fair values                                       | (219)           | (310)           |
| Change in unrealised fair values - associated companies (note 9)       | (85)            | 216             |
| At 31 December   | (234)           | 70              |
|  | (12,304)        | 17,420          |

**18 PROPOSED APPROPRIATIONS**

|                             | 2015<br>BD '000 | 2014<br>BD '000 |
|-----------------------------|-----------------|-----------------|
| Cash dividend               | 26,611          | 20,179          |
| Stock dividend              | -               | 5,151           |
| Transfer to general reserve | 2,575           | 4,682           |
| Donations                   | 1,400           | 1,390           |
|                             | 30,586          | 31,402          |

The Board of Directors has proposed cash dividend of BD 0.025 per share (2014: BD 0.020 per share and stock dividend of BD 0.005 per share), net of treasury stock as of 31 December 2015. The Bank paid dividend of BD 0.025 per share (2014: BD 0.025 per share).

The above appropriations will be submitted for approval at the Annual General Assembly of the Shareholders to be held on 28 March 2016. The payment of dividend is also subject to the approval of the Central Bank of Bahrain.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**19 INTEREST AND SIMILAR INCOME**

|  | <b>2015</b>    | <b>2014</b>    |
|--|----------------|----------------|
|  | <b>BD '000</b> | <b>BD '000</b> |
| Loans and advances to customers  | 87,094         | 84,738         |
| Non-trading investment securities - available-for-sale                                     | 19,154         | 16,685         |
| Deposits and amounts due from banks and other financial institutions                       | 2,562          | 2,154          |
| Non-trading investment securities - amortised cost   | 921            | 960            |
| Interest recovered on impaired financial assets - loans and advances to customers (note 7) | -              | 661            |
| Treasury bills   | 4,882          | 3,351          |
|  | <b>114,613</b> | <b>108,549</b> |

**20 OTHER INCOME**

|   | <b>2015</b>     | <b>2014</b>     |
|---|-----------------|-----------------|
|   | <b>BD '000</b>  | <b>BD '000</b>  |
| Fee and commission income                                   | 40,919          | 36,663          |
| Dividend income   | 3,806           | 3,214           |
| Realised gains on sale of non-trading investment securities | 4,408           | 3,826           |
| Gain on foreign exchange                                    | 5,260           | 4,746           |
| Others  | 2,350           | 2,716           |
|   | <b>56,743</b>   | <b>51,165</b>   |
| Fee and commission expense                                  | <b>(12,524)</b> | <b>(10,286)</b> |
|   | <b>44,219</b>   | <b>40,879</b>   |

Included in fee and commission income is BD 132 thousand (2014: BD 563 thousand) relating to trust and other fiduciary activities.

**21 BASIC AND DILUTED EARNINGS PER SHARE***Basic earnings per share*

Basic earnings per share for the year are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

|   | <b>2015</b>          | <b>2014</b>          |
|---|----------------------|----------------------|
| Profit for the year attributable to the owners of the Bank (BD '000)                  | <b>53,212</b>        | <b>50,095</b>        |
| Weighted average number of shares, net of treasury stock, outstanding during the year | <b>1,064,452,452</b> | <b>1,060,441,827</b> |
| Basic and diluted earnings per share (BD)   | <b>0.050</b>         | <b>0.047</b>         |

**22 OPERATING SEGMENTS****Segment information**

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

- Retail banking** - Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange.
- Corporate banking** - Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers in Bahrain.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**22 OPERATING SEGMENTS (continued)**

**International banking** - Principally handling loans and other credit facilities, deposit and current accounts for international corporate and institutional customers. This also covers the operations of the overseas units.

**Investment, treasury and other activities** - Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities also include business process outsourcing services.

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a transfer pricing rate which approximates the marginal cost of funds on a matched funded basis.

Segment information for the year ended 31 December 2015 was as follows:

|  | <i>Retail<br/>banking<br/>BD '000</i> | <i>Corporate<br/>banking<br/>BD '000</i> | <i>International<br/>banking<br/>BD '000</i> | <i>Investment,<br/>treasury<br/>and other<br/>activities<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
|--|---------------------------------------|--|--|--|--------------------------|
| Interest income  | 24,681                                | 34,681                                   | 32,004                                       | 23,247   | 114,613                  |
| Interest expense   | (2,672)                               | (8,600)                                  | (8,598)                                      | (22,037)   | (41,907)                 |
| Internal fund transfer price   | (6,157)                               | (1,971)                                  | (3,545)                                      | 11,673   | -                        |
| Net Interest Income  | 15,852                                | 24,110                                   | 19,861                                       | 12,883   | 72,706                   |
| Other Operating Income   | 20,486                                | 4,061                                    | 5,944  | 13,728   | 44,219                   |
| Operating income before share of profit of associated companies and joint ventures | 36,338                                | 28,171                                   | 25,805                                       | 26,611   | 116,925                  |
| Net provision for impairment on loans and advances to customers                    | (1,293)                               | (6,298)                                  | (11,384)                                     | -  | (18,975)                 |
| Net provision of impairment of non-trading investment securities                   | -                                     | -  | -  | (538)  | (538)                    |
| Segment result   | 12,875                                | 9,370                                    | 3,734  | 23,195   | 49,174                   |
| Share of profit of associated companies and joint venture                          | 4,215                                 | -  | -  | -  | 4,215                    |
| Profit for the year  |                                       |  |  |  | 53,389                   |
| Loss attributable to non-controlling interest                                      |                                       |  |  |  | (177)                    |
| Profit for the year attributable to the owners of the Bank                         |                                       |  |  |  | 53,212                   |
| Segment assets   | 486,914                               | 696,969                                  | 1,334,785                                    | 1,063,820  | 3,582,488                |
| Investment in associated companies and joint venture                               | 27,950                                | -  | -  | 7,873  | 35,823                   |
| Common assets  |                                       |  |  |  | 28,130                   |
| Total assets   |                                       |  |  |  | 3,646,441                |
| Segment liabilities  | 679,825                               | 975,041                                  | 853,257                                      | 729,570  | 3,237,693                |
| Common liabilities   |                                       |  |  |  | 48,014                   |
| Total liabilities  |                                       |  |  |  | 3,285,707                |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**22 OPERATING SEGMENTS (continued)**

Segment information for the year ended 31 December 2014 was as follows:

|  | <i>Retail<br/>banking<br/>BD '000</i> | <i>Corporate<br/>banking<br/>BD '000</i> | <i>International<br/>banking<br/>BD '000</i> | <i>Investment,<br/>treasury<br/>and other<br/>activities<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
|--|---------------------------------------|--|--|--|--------------------------|
| Interest income  | 22,275                                | 36,364                                   | 30,485                                       | 28,772   | 117,896                  |
| Interest expense   | (2,614)                               | (7,474)                                  | (6,687)                                      | (28,831)   | (45,606)                 |
| Internal fund transfer price   | (6,156)                               | (4,230)                                  | (5,483)                                      | 15,869   | -                        |
| Net Interest Income  | 13,505                                | 24,660                                   | 18,315                                       | 15,810   | 72,290                   |
| Other Operating Income   | 18,001                                | 3,716                                    | 5,459  | 13,703   | 40,879                   |
| Operating income before share of profit of<br>associated companies and joint venture | 31,506                                | 28,376                                   | 23,774                                       | 29,513   | 113,169                  |
| Net provision for impairment<br>on loans and advances to customers                   | (3,312)                               | (6,761)                                  | (11,499)                                     | -  | (21,572)                 |
| Net write back of impairment<br>of non-trading investment securities                 | -                                     | -  | -  | 784  | 784                      |
| Segment result   | 9,156                                 | 9,487                                    | 557  | 26,729   | 45,929                   |
| Share of profit of associated companies<br>and joint ventures                        | 4,235                                 | -  | -  | 142  | 4,377                    |
| Profit for the year  |                                       |  |  |  | 50,306                   |
| Loss attributable to non-controlling interest  |                                       |  |  |  | (211)                    |
| Profit for the year attributable to the owners of the Bank                           |                                       |  |  |  | 50,095                   |
| Segment assets   | 421,557                               | 663,166                                  | 1,469,241                                    | 877,583  | 3,431,547                |
| Investment in associated companies<br>and joint ventures                             | 26,223                                | -  | -  | 10,314   | 36,537                   |
| Common assets  |                                       |  |  |  | 32,853                   |
| Total assets   |                                       |  |  |  | 3,500,937                |
| Segment liabilities  | 593,366                               | 911,177                                  | 895,740                                      | 692,277  | 3,092,560                |
| Common liabilities   |                                       |  |  |  | 49,025                   |
| Total liabilities  |                                       |  |  |  | 3,141,585                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**22 OPERATING SEGMENTS (continued)****Geographic information**

The Group operates in two geographic markets: Domestic (Bahrain), Others (Middle East/Africa, Europe, North America and Asia). The following tables show the distribution of the Group's revenue and non-current assets by geographical segment, allocated based on the location in which the assets and liabilities are located, for the years ended 31 December 2015 and 31 December 2014:

|  | <i>Domestic<br/>BD '000</i> | <i>Others<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
|--|-----------------------------|---------------------------|--------------------------|
| <b>31 December 2015</b>                                    |                             |                           |                          |
| Net interest income  | 61,777                      | 10,929                    | 72,706                   |
| Share of profit in associated companies and joint ventures | 4,215                       | -                         | 4,215                    |
| Other income   | 40,553                      | 3,666                     | 44,219                   |
|  | <b>106,545</b>              | <b>14,595</b>             | <b>121,140</b>           |
| Non-current assets   | <b>20,659</b>               | <b>4,147</b>              | <b>24,806</b>            |
|  | <i>Domestic<br/>BD '000</i> | <i>Others<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
| <b>31 December 2014</b>                                    |                             |                           |                          |
| Net interest income  | 61,087                      | 11,203                    | 72,290                   |
| Share of profit in associated companies and joint ventures | 4,235                       | 142                       | 4,377                    |
| Other income   | 37,890                      | 2,989                     | 40,879                   |
|  | <b>103,212</b>              | <b>14,334</b>             | <b>117,546</b>           |
| Non-current assets   | <b>20,581</b>               | <b>4,433</b>              | <b>25,014</b>            |

Non-current assets represents premises and equipment.

**23 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the consolidated statement of cash flows includes the following as at 31 December:

|  | <i>2015<br/>BD '000</i> | <i>2014<br/>BD '000</i> |
|--|-------------------------|-------------------------|
| Cash (note 4)  | 17,636                  | 17,685                  |
| Current accounts and placements with central banks (note 4)  | 186,716                 | 184,387                 |
| Treasury bills   | 5,667                   | 5,049                   |
| Deposits and amounts and due from banks and other financial<br>with original maturities of ninety days or less | <b>323,097</b>          | <b>145,518</b>          |
|  | <b>533,116</b>          | <b>352,639</b>          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**24 RELATED PARTY TRANSACTIONS**

Related parties represent major shareholders, associates and joint ventures, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Amounts outstanding as of the statement of financial position date in respect of transactions entered into with related parties were as follows:

|  | <i>Major<br/>shareholders<br/>BD '000</i> | <i>Associated<br/>companies<br/>and joint<br/>venture<br/>BD '000</i> | <i>Directors<br/>and key<br/>management<br/>personnel<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
|--|---|---|---|--------------------------|
| <b>2015</b>                                    |   |   |   |                          |
| Loans and advances to customers                | -   | 4,207   | 1,224   | 5,431                    |
| Customers' current, savings and other deposits | 290,287                                   | 6,180   | 8,895   | 305,362                  |
| <b>2014</b>                                    |   |   |   |                          |
| Loans and advances to customers                | -   | 7,248   | 1,201   | 8,449                    |
| Customers' current, savings and other deposits | 392,071                                   | 7,084   | 7,120   | 406,275                  |

For the years ended 31 December 2015 and 31 December 2014 the Group has not recorded any impairment provision on the amounts due from related parties.

The income and expense in respect of related parties included in the consolidated statement of profit or loss are as follows:

|                  | <i>Major<br/>shareholders<br/>BD '000</i> | <i>Associated<br/>companies<br/>and joint<br/>venture<br/>BD '000</i> | <i>Directors<br/>and key<br/>management<br/>personnel<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
|------------------|---|---|---|--------------------------|
| <b>2015</b>      |   |   |   |                          |
| Interest income  | -   | 320   | 18  | 338                      |
| Interest expense | 3,328                                     | 100   | 126   | 3,554                    |
| <b>2014</b>      |   |   |   |                          |
| Interest income  | -   | 354   | 16  | 370                      |
| Interest expense | 3,694                                     | 93  | 99  | 3,886                    |

Compensation of the key management personnel is as follows:

|                              | <i>2015<br/>BD '000</i> | <i>2014<br/>BD '000</i> |
|------------------------------|-------------------------|-------------------------|
| Short term employee benefits | 7,507                   | 6,968                   |
| Others                       | 269                     | 259                     |
|                              | <u>7,776</u>            | <u>7,227</u>            |

**Key management interest in an employee share incentive scheme**

The Bank has introduced effective 2010, a new share-based payment scheme (refer to note 40 for details).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

## 25 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity profile of the assets and liabilities at 31 December 2015 and as at 31 December 2014 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date, except in the case of customer deposits. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

|  | 31 December 2015 |                |                |                |                  |                  |                  | BD '000          |                    |                  |  |  |
|--|------------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|--------------------|------------------|--|--|
|  | Within 1 month   | 1 to 3 months  | 3 to 6 months  | 6 to 12 months | Subtotal         | 1 to 5 years     | 5 to 10 years    | 10 to 20 years   | More than 20 years | Total            |  |  |
| <b>Assets</b>  |                  |                |                |                |                  |                  |                  |                  |                    |                  |  |  |
| Cash and balances with central banks                                 | 204,352          | -              | -              | -              | 204,352          | -                | -                | -                | 82,398             | 286,750          |  |  |
| Treasury bills   | 77,647           | 146,069        | 72,057         | 98,317         | 394,090          | -                | -                | -                | -                  | 394,090          |  |  |
| Deposits and amounts due from banks and other financial institutions | 288,375          | 36,721         | -              | -              | 325,096          | -                | -                | -                | -                  | 325,096          |  |  |
| Loans and advances to customers                                      | 101,348          | 145,071        | 121,488        | 139,823        | 507,730          | 759,419          | 243,185          | 54,137           | 190,328            | 1,764,799        |  |  |
| Non-trading investment securities                                    | 183,124          | 29,558         | 22,068         | 53,600         | 288,350          | 191,886          | 216,181          | -                | 61,690             | 758,107          |  |  |
| Investments in associated companies and joint venture                | -                | -              | -              | -              | -                | -                | -                | -                | 35,823             | 35,823           |  |  |
| Interest receivable and other assets                                 | 47,884           | 63             | 90             | 54             | 48,091           | 8,879            | -                | -                | -                  | 56,970           |  |  |
| Premises and equipment   | -                | -              | -              | -              | -                | 20,022           | 1,216            | 1,728            | 1,840              | 24,806           |  |  |
| <b>Total assets</b>  | <b>902,730</b>   | <b>357,482</b> | <b>215,703</b> | <b>291,794</b> | <b>1,767,709</b> | <b>990,206</b>   | <b>460,582</b>   | <b>55,865</b>    | <b>372,079</b>     | <b>3,646,441</b> |  |  |
| <b>Liabilities</b>   |                  |                |                |                |                  |                  |                  |                  |                    |                  |  |  |
| Deposits and amounts due to banks and other financial institutions   | 137,683          | 28,893         | 9,440          | 3,388          | 179,404          | -                | -                | -                | -                  | 179,404          |  |  |
| Borrowings under repurchase agreement                                | -                | -              | -              | -              | -                | 174,508          | -                | -                | -                  | 174,508          |  |  |
| Term borrowings  | -                | -              | -              | -              | -                | 204,677          | -                | -                | -                  | 204,677          |  |  |
| Customers' current, savings and other deposits                       | 334,779          | 228,438        | 95,990         | 112,213        | 771,420          | 28,391           | 9                | -                | 1,843,072          | 2,642,892        |  |  |
| Interest payable and other liabilities                               | 66,400           | 3,000          | 1,438          | 3,647          | 74,485           | 9,432            | -                | -                | 309                | 84,226           |  |  |
| <b>Total liabilities</b>   | <b>538,862</b>   | <b>260,331</b> | <b>106,868</b> | <b>119,248</b> | <b>1,025,309</b> | <b>417,008</b>   | <b>9</b>         | <b>-</b>         | <b>1,843,381</b>   | <b>3,285,707</b> |  |  |
| <b>Net</b>   | <b>363,868</b>   | <b>97,151</b>  | <b>108,835</b> | <b>172,546</b> | <b>742,400</b>   | <b>573,198</b>   | <b>460,573</b>   | <b>55,865</b>    | <b>(1,471,302)</b> | <b>360,734</b>   |  |  |
| <b>Cumulative</b>  | <b>363,868</b>   | <b>461,019</b> | <b>569,854</b> | <b>742,400</b> |                  | <b>1,315,598</b> | <b>1,776,171</b> | <b>1,832,036</b> | <b>360,734</b>     |                  |  |  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

## 25 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

31 December 2014

| 31 December 2014   |                |               |               |                |           |              |               |                |                    |           |
|--|----------------|---------------|---------------|----------------|-----------|--------------|---------------|----------------|--------------------|-----------|
| BD '000  |                |               |               |                |           |              |               |                |                    |           |
|  | Within 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Subtotal  | 1 to 5 years | 5 to 10 years | 10 to 20 years | More than 20 years | Total     |
| Assets   |                |               |               |                |           |              |               |                |                    |           |
| Cash and balances with central banks                                 | 202,072        | -             | -             | -              | 202,072   | -            | -             | -              | 76,121             | 278,193   |
| Treasury bills   | 48,273         | 119,057       | 55,919        | 69,434         | 292,683   | -            | -             | -              | -                  | 292,683   |
| Deposits and amounts due from banks and other financial institutions | 89,858         | 60,287        | 25,751        | -              | 175,896   | -            | -             | -              | -                  | 175,896   |
| Loans and advances to customers                                      | 89,618         | 189,894       | 126,079       | 127,752        | 533,343   | 849,441      | 222,553       | 52,837         | 188,288            | 1,846,462 |
| Non-trading investment securities                                    | 373,241        | 11,928        | 22,187        | 53,801         | 461,157   | 131,921      | 140,416       | 1,891          | 51,768             | 787,153   |
| Investments in associated companies and joint venture                | -              | -             | -             | -              | -         | -            | -             | -              | 36,537             | 36,537    |
| Interest receivable and other assets                                 | 55,500         | 45            | 43            | 54             | 55,642    | 3,357        | -             | -              | -                  | 58,999    |
| Premises and equipment   | -              | -             | -             | -              | -         | 19,881       | 1,400         | 417            | 3,316              | 25,014    |
| Total assets   | 858,562        | 381,211       | 229,979       | 251,041        | 1,720,793 | 1,004,600    | 364,369       | 55,145         | 356,030            | 3,500,937 |
| Liabilities  |                |               |               |                |           |              |               |                |                    |           |
| Deposits and amounts due to banks and other financial institutions   | 248,813        | 53,516        | 10,595        | 100            | 313,024   | -            | -             | -              | -                  | 313,024   |
| Borrowings under repurchase agreement                                | -              | -             | -             | 18,857         | 18,857    | 18,847       | -             | -              | -                  | 37,704    |
| Term borrowings  | -              | -             | -             | 188,500        | 188,500   | 52,438       | -             | -              | -                  | 240,938   |
| Customers' current, savings and other deposits                       | 281,416        | 269,390       | 92,530        | 65,048         | 708,384   | 61,625       | -             | -              | 1,701,068          | 2,471,077 |
| Interest payable and other liabilities                               | 41,691         | 2,184         | 1,535         | 29,012         | 74,422    | 4,420        | -             | -              | -                  | 78,842    |
| Total liabilities  | 571,920        | 325,090       | 104,660       | 301,517        | 1,303,187 | 137,330      | -             | -              | 1,701,068          | 3,141,585 |
| Net  | 286,642        | 56,121        | 125,319       | (50,476)       | 417,606   | 867,270      | 364,369       | 55,145         | (1,345,038)        | 359,352   |
| Cumulative   | 286,642        | 342,763       | 468,082       | 417,606        |           | 1,284,876    | 1,649,245     | 1,704,390      | 359,352            |           |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**26 DERIVATIVES**

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price in one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates and interest rates inherent in the Group's non-trading assets and liabilities. The Group also enters into derivative contracts for the purpose of trading.

The table below shows the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end but are neither indicative of the market risk nor credit risk.

|   | <i>Positive<br/>fair<br/>value<br/>BD '000</i> | <i>Negative<br/>fair<br/>value<br/>BD '000</i> | <i>Notional<br/>amount<br/>BD '000</i> |
|---|--|--|--|
| <b>31 December 2015</b>                             |  |  |  |
| <b><i>Derivatives held for trading</i></b>          |  |  |  |
| Forward foreign exchange contracts                  | 179  | 26   | 41,667                                 |
| Interest rate swaps                                 | -  | -  | -                                      |
| <b><i>Derivatives held as fair value hedges</i></b> |  |  |  |
| Interest rate swaps                                 | 1,991  | 12,078   | 505,932                                |
| Forward foreign exchange contracts                  | 123  | 334  | 120,842                                |
| <b><i>Derivatives held as cash flow hedges</i></b>  |  |  |  |
| Interest rate swaps                                 | 43   | 52   | 57,519                                 |
|   | <b>2,336</b>                                   | <b>12,490</b>                                  | <b>725,960</b>                         |
|   | <i>Positive<br/>fair<br/>value<br/>BD '000</i> | <i>Negative<br/>fair<br/>value<br/>BD '000</i> | <i>Notional<br/>amount<br/>BD '000</i> |
| <b>31 December 2014</b>                             |  |  |  |
| <b><i>Derivatives held for trading</i></b>          |  |  |  |
| Forward foreign exchange contracts                  | 118  | 20   | 21,476                                 |
| Interest rate swaps                                 | -  | -  | 339                                    |
| <b><i>Derivatives held as fair value hedges</i></b> |  |  |  |
| Interest rate swaps                                 | 2,131  | 12,330   | 533,489                                |
| Forward foreign exchange contracts                  | 529  | 18   | 195,562                                |
| <b><i>Derivatives held as cash flow hedges</i></b>  |  |  |  |
| Interest rate swaps                                 | 209  | -  | 57,519                                 |
|   | <b>2,987</b>                                   | <b>12,368</b>                                  | <b>808,385</b>                         |

***Derivative product types***

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments and notional amounts are exchanged in different currencies.

**26 DERIVATIVES (continued)*****Derivative product types (continued)***

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

***Derivatives held or issued for trading purposes***

Most of the Group's derivative trading activities relate to back to back customer deals. In addition, the Group takes certain foreign exchange positions with the expectation of profiting from favorable movements in prices, rates or indices. Also included under this heading are derivatives which do not meet IAS 39 hedging requirements.

***Derivatives held or issued for hedging purposes***

The Group has put in place systems for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. For strategies adopted to manage interest rate and currency risk, please refer notes 35 and 36 respectively.

As part of its asset and liability management the Group uses derivatives for hedging currency and interest rate movements. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against consolidated statement of financial position sheet exposures. In all such cases the objective of the hedging relationship, details of the hedged item and hedging instrument are documented and the transactions are accounted for as fair value or cash flow hedges, as the case may be.

***Fair value hedges***

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale debt securities, debt issued and other borrowed funds. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

For the year ended 31 December 2015, the Group recognised a net gain of BD 31 thousand (2014: net gain of BD 20 thousand), representing the loss on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to BD 286 thousand (2014: loss of BD 172 thousand).

**27 COMMITMENTS AND CONTINGENT LIABILITIES*****Credit-related commitments***

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent the unused portions of contractual commitments to make loans and revolving credits, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most of the commitments to extend credit are contingent upon the customer maintaining specific credit standards. Commitments generally have fixed expiration dates of less than one year or other termination clauses. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon certain conditions. Standby letters of credit, which are included under guarantees, would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**27 COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

The Group has the following credit related commitments:

| <b>31 December 2015</b>  | <b>On<br/>demand<br/>BD '000</b> | <b>than 3<br/>months<br/>BD '000</b> | <b>3 to 12<br/>months<br/>BD '000</b> | <b>1 to 5<br/>years<br/>BD '000</b> | <b>Total<br/>BD '000</b> |
|--------------------------|----------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|--------------------------|
| <b>Contingencies</b>     |                                  |                                      |                                       |                                     |                          |
| Letters of credit        | 3,946                            | 13,925                               | 16,382                                | -                                   | 34,253                   |
| Guarantees               | 204,616                          | -                                    | -                                     | -                                   | 204,616                  |
|                          |                                  |                                      |                                       |                                     | <b>238,869</b>           |
| <b>Commitments</b>       |                                  |                                      |                                       |                                     |                          |
| Undrawn loan commitments | 143,943                          | -                                    | -                                     | -                                   | 143,943                  |
|                          |                                  |                                      |                                       |                                     | <b>143,943</b>           |
|                          |                                  |                                      |                                       |                                     | <b>382,812</b>           |

| <b>31 December 2014</b>  | <b>On<br/>demand<br/>BD '000</b> | <b>Less than<br/>3 months<br/>BD '000</b> | <b>3 to 12<br/>months<br/>BD '000</b> | <b>1 to 5<br/>years<br/>BD '000</b> | <b>Total<br/>BD '000</b> |
|--------------------------|----------------------------------|---|---------------------------------------|-------------------------------------|--------------------------|
| <b>Contingencies</b>     |                                  |   |                                       |                                     |                          |
| Letters of credit        | 8,933                            | 12,166                                    | 17,989                                | 94                                  | 39,182                   |
| Guarantees               | 249,497                          | -   | -                                     | -                                   | 249,497                  |
|                          |                                  |   |                                       |                                     | <b>288,679</b>           |
| <b>Commitments</b>       |                                  |   |                                       |                                     |                          |
| Undrawn loan commitments | 194,542                          | -   | -                                     | -                                   | 194,542                  |
|                          |                                  |   |                                       |                                     | <b>194,542</b>           |
|                          |                                  |   |                                       |                                     | <b>483,221</b>           |

The Group does not expect all its commitments to be drawn before the expiry of the commitment.

**Lease commitments****Operating lease commitments – Group as lessee**

The Group has entered into commercial leases on premises. Future minimum lease payments under non-cancelable operating leases as at 31 December are as follows:

|   | <b>2015<br/>BD '000</b> | <b>2014<br/>BD '000</b> |
|---|-------------------------|-------------------------|
| Within one year                             | 858                     | 505                     |
| After one year but not more than five years | 1,212                   | 1,236                   |
| More than five years                        | 2,418                   | 2,024                   |
|   | <b>4,488</b>            | <b>3,765</b>            |

**28 RISK MANAGEMENT**

Efficient and timely management of risks involved in the Group's activities is critical for the financial soundness and profitability of the Group. Risk management involves the identifying, measuring, monitoring and managing of risks on a regular basis. The objective of risk management is to increase shareholders' value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, the Group employs leading risk management practices and recruits skilled and experienced people.



**28 RISK MANAGEMENT (continued)**

As with other financial institutions, the Group faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (comprising of interest rate risk, currency risk and equity price risk); (iii) liquidity risk, (iv) legal risk and (v) operational risk, as detailed below.

The Board of Directors of the Bank has overall responsibility for managing risks. Whilst the Board approves and periodically reviews risk management policies and strategies, upon recommendations of the Board Risk Committee, the management establishes procedures to implement the policies and strategies. The Risk Management Committee (RMC) and Asset and Liability Management Committee (ALMC), comprising Executive and Senior Management, are high level management committees responsible for the overall management of the risk profile of the Group. RMC discusses important risk related issues, policies, procedures and reviews implementation of its decisions. ALMC reviews issues relating to the statement of financial position at a micro level and also reviews issues relating to Asset Liability mismatches and liquidity. The Country Risk Committee (CRC) reviews country risk and business strategies and macro economic conditions with reference to the countries identified for doing business. The Operational Risk Management Committee manages the overall operational risk for the Bank by instituting CBB guidelines and Basel standards and carrying out required oversight.

The Risk & Credit Management Division (RCMD) is responsible for oversight of risk characteristics inherent in new and existing products, activities, countries, regions, industries and making necessary recommendations to the appropriate authorities. It is also responsible for introducing or amending risk policies, procedures and exposure limits to mitigate these risks with approval from Board Risk Committee and Board or the Risk Management Committee, as applicable. The RCMD also establishes systems and processes for monitoring market and operational risks. The RCMD processes credit applications and ensures that the provisions of credit risk policies are complied with. The RCMD generates regular reports on credit risk exposures, performs credit rating reviews and monitors credit limits. The Designated Credit Officer / Designated Investment Officer in RCMD is one of the signatories in the credit/ investment approval chain and provides independent view on credit & investment proposals. The Chief Risk Officer is the head of RCMD and reports directly to the Chief Executive of the Bank, thereby ensuring the independence of the risk management process. In addition to the above, RCMD, in collaboration with Financial Control & Planning Division, prepares the Risk Appetite & the ICAAP document for the Bank. The ICAAP document assesses the Pillar 2 risks at length and prescribes the required level of capital buffer for the Bank.

The internal audit department assess whether the policies and procedures are complied with and, if necessary, suggest ways of further improving internal guidelines and procedures.

The various risks to which the Group is exposed to and how the Group manages them is discussed in the following paragraphs.

**29 CREDIT RISK AND CONCENTRATION OF CREDIT RISK**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features, fail to meet contractual obligations, due to them being affected by changes in economic, political or other conditions.

Credit risk in derivative financial instruments arises from potential counterparty default on contractual obligations and it is limited to the positive fair value in favor of the Group.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

**29 CREDIT RISK AND CONCENTRATION OF CREDIT RISK (continued)**

The Group has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Group's activities, at the level of individual credit and at portfolio level. Credit limits are approved after a thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of the credit, and its source of repayment. Credit proposals are reviewed by the RCMD, which is independent of business units, before approval by the appropriate approving authority is obtained. All policies relating to credit are reviewed by the Board Risk Committee and approved by the Board of Directors. An Executive Committee, consisting of Board of Directors, reviews and approves larger credits. In addition, all larger credits in excess of the approval authority of the Executive Committee are approved by the Board of Directors.

The Group devises specific business and risk strategies relating to corporate, retail, investments and treasury areas, within the ambit of the Group's risk policies and procedures. Any additional risks associated with such strategies are discussed in the RMC meetings and necessary risk control measures are applied through amendments to policies, procedures and circulars. The Group also draws up a comprehensive Risk Management Strategy every year and monitors the progress of that strategy.

Day-to-day monitoring of individual borrower or counterparty exposure is the responsibility of the respective business unit. The Group's Credit Administration Unit, a part of the RCMD, ensures that credit facilities are released after appropriate approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits and escalates exceptions if any, for corrective action.

Counterparty credit limits are established for all customers after careful assessment of their creditworthiness and approval (as per the levels of authority prescribed in the policy). These are also subject to large credit exposure limit criteria of the Central Bank of Bahrain and the local regulators in overseas locations. Standard procedures, outlined in the Group's Credit Procedures Manual, require that all credit proposals be subjected to a detailed screening by a Designated Credit Officer /Designated Investment Officer who is part of a three signature approval process and functions independent of the business units.

The credit growth, quality and portfolio composition are monitored continuously to maximize the risk adjusted return and reduce the level of incidence of impairment and accretion of marginal credits. The Group monitors concentration risk by establishing limits for maximum exposure to individual borrower or counterparty, country, bank and industry. Such limits are also stipulated for certain products. These limits are approved after detailed analysis and are reviewed and monitored regularly.

The Group has a risk asset rating policy which defines criteria for rating risk assets. All credits are assigned a rating in accordance with the defined criteria. All lending relationships are reviewed at least once in a year and more frequently in case of high risk and non-performing assets (NPAs). The Internal Audit Department conducts an independent review of risk assets periodically and submits its report to Senior Management/Audit Committee. The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices, to reflect the true credit risk of the portfolio and the credit culture in the Group.

It is the Group's policy to ensure that provisions for credit loss are maintained at an adequate level. For loans and advances considered by the management as individually significant, specific provision is made for the impairment loss calculated on the basis of estimated discounted value of future cash flows in line with IFRS guidelines. For the remaining accounts, which are individually not significant, specific provision is made based on historic trends and the current economic environment. All provisions are approved by the Provision Committee, which comprises members of senior management.

Details of the composition of the loans, advances and overdraft portfolio are set out in Note 7 to the consolidated financial statements.

The portfolio of non-performing assets is managed by skilled and experienced staff in the Remedial Department which is responsible for recovery of dues and restructuring of stressed assets.

Details of the industry sector analysis and the geographical distribution of assets, liabilities and off statement of financial position items are set out in Note 31.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**30 MAXIMUM EXPOSURE TO CREDIT RISK WITHOUT TAKING INTO ACCOUNT OF ANY COLLATERAL AND OTHER CREDIT ENHANCEMENTS**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and for derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

|  | 2015<br>BD '000  | 2014<br>BD '000  |
|--|------------------|------------------|
| Balances with central banks  | 269,114          | 260,508          |
| Treasury bills   | 394,090          | 292,683          |
| Deposits and amounts due from banks and other financial institutions | 325,096          | 175,896          |
| Loans and advances to customers                                      | 1,764,799        | 1,846,462        |
| Non-trading investment securities                                    | 663,051          | 681,131          |
| Interest receivable and other assets                                 | 47,010           | 55,431           |
|  | <b>3,463,160</b> | <b>3,312,111</b> |
| Contingent liabilities   | 238,869          | 288,679          |
| Commitments  | 143,943          | 194,542          |
|  | <b>382,812</b>   | <b>483,221</b>   |
|  | <b>3,845,972</b> | <b>3,795,332</b> |

**31 CONCENTRATION OF ASSETS, LIABILITIES AND OFF STATEMENT OF FINANCIAL POSITION ITEMS**

The distribution of assets, liabilities and credit commitments and contingencies by geographic region and industry sector is as follows:

|  | 2015              |                        |  | 2014              |                        |  |
|--|-------------------|------------------------|--|-------------------|------------------------|--|
|  | Assets<br>BD '000 | Liabilities<br>BD '000 | Credit<br>commitments<br>and<br>contingencies<br>BD '000 | Assets<br>BD '000 | Liabilities<br>BD '000 | Credit<br>commitments<br>and<br>contingencies<br>BD '000 |
| Gulf Co-operation Council countries    | 2,959,680         | 2,809,005              | 329,950  | 2,832,366         | 2,747,034              | 393,286  |
| North America                          | 90,196            | 5,217                  | 436  | 46,471            | 8,680                  | 1,038  |
| European Union countries               | 219,528           | 314,990                | 11,379   | 222,504           | 286,679                | 35,273   |
| Asia                                   | 315,379           | 142,972                | 29,640   | 339,399           | 85,319                 | 42,519   |
| Others                                 | 61,658            | 13,523                 | 11,407   | 60,197            | 13,873                 | 11,105   |
|  | <b>3,646,441</b>  | <b>3,285,707</b>       | <b>382,812</b>   | <b>3,500,937</b>  | <b>3,141,585</b>       | <b>483,221</b>   |
| Trading and manufacturing              | 613,889           | 151,087                | 164,186  | 634,057           | 124,414                | 182,480  |
| Banks and other financial institutions | 827,713           | 1,237,166              | 38,185   | 787,143           | 1,191,640              | 107,362  |
| Construction and real estate           | 430,783           | 75,601                 | 123,703  | 451,712           | 63,302                 | 86,246   |
| Government and public sector           | 1,141,750         | 756,818                | 3,016  | 1,031,975         | 823,798                | 3,016  |
| Individuals                            | 352,781           | 768,835                | 1,050  | 288,483           | 671,361                | 1,104  |
| Others                                 | 279,525           | 296,200                | 52,672   | 307,567           | 267,070                | 103,013  |
|  | <b>3,646,441</b>  | <b>3,285,707</b>       | <b>382,812</b>   | <b>3,500,937</b>  | <b>3,141,585</b>       | <b>483,221</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**31 CONCENTRATION OF ASSETS, LIABILITIES AND OFF STATEMENT OF FINANCIAL POSITION ITEMS (continued)*****Collateral and other credit enhancements***

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables, and bank guarantees
- For retail lending, mortgages over residential properties
- Cash collaterals such as bank deposits
- Marketable securities

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

**32 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS**

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings.

The table below shows the credit quality by class of asset for gross loan-related statement of financial position lines, based on the Group's credit rating system.

|  | <i>Neither past due nor impaired</i> |                       |                           | <i>Past due or individually impaired</i> | <i>Total</i>     |
|--|--------------------------------------|-----------------------|---------------------------|--|------------------|
|  | <i>High grade</i>                    | <i>Standard grade</i> | <i>Sub-standard grade</i> |  |                  |
|  | <i>BD '000</i>                       | <i>BD '000</i>        | <i>BD '000</i>            | <i>BD '000</i>                           | <i>BD '000</i>   |
| <b>31 December 2015</b>                |                                      |                       |                           |  |                  |
| <b>Loans and advances to customers</b> |                                      |                       |                           |  |                  |
| Commercial loans                       | 297,888                              | 901,241               | 193,382                   | 98,831                                   | 1,491,342        |
| Consumer loans                         | 331,761                              | 1,256                 | 4,398                     | 34,882                                   | 372,297          |
| <b>Total</b>                           | <b>629,649</b>                       | <b>902,497</b>        | <b>197,780</b>            | <b>133,713</b>                           | <b>1,863,639</b> |
|  |                                      |                       |                           |  |                  |
|  | <i>Neither past due nor impaired</i> |                       |                           | <i>Past due or individually impaired</i> | <i>Total</i>     |
|  | <i>High grade</i>                    | <i>Standard grade</i> | <i>Sub-standard grade</i> |  |                  |
|  | <i>BD '000</i>                       | <i>BD '000</i>        | <i>BD '000</i>            | <i>BD '000</i>                           | <i>BD '000</i>   |
| <b>31 December 2014</b>                |                                      |                       |                           |  |                  |
| <b>Loans and advances to customers</b> |                                      |                       |                           |  |                  |
| Commercial loans                       | 293,157                              | 1,074,520             | 132,465                   | 120,487                                  | 1,620,629        |
| Consumer loans                         | 278,482                              | 1,103                 | 3,322                     | 29,679                                   | 312,586          |
| <b>Total</b>                           | <b>571,639</b>                       | <b>1,075,623</b>      | <b>135,787</b>            | <b>150,166</b>                           | <b>1,933,215</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 32 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

*Internal credit risk ratings*

The Group follows an internal rating mechanism for grading relationships under loans and advances.

The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 8 denoting performing grades, 9 and 10 non-performing, in line with Basel III guidelines. Grades 1 to 3 represents high grade, 4 to 6 represents standard grade and 7 to 8 represents sub-standard grade.

All credits are assigned a rating in accordance with the defined criteria.

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

All lending relationships are reviewed at least once in a year and more frequently in the case of non-performing assets.

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

**Ageing analysis of past due but not impaired loans**

|  | <i>Less than<br/>30 days<br/>BD '000</i> | <i>31 to<br/>60 days<br/>BD '000</i> | <i>61 to<br/>89 days<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
|--|--|--------------------------------------|--------------------------------------|--------------------------|
| <b>31 December 2015</b>                |  |                                      |                                      |                          |
| <b>Loans and advances to customers</b> |  |                                      |                                      |                          |
| Commercial loans                       | 18,473                                   | 12,779                               | 653                                  | 31,905                   |
| Consumer loans                         | 11,418                                   | 4,882                                | 2,821                                | 19,121                   |
| <b>Total</b>                           | <b>29,891</b>                            | <b>17,661</b>                        | <b>3,474</b>                         | <b>51,026</b>            |
|  | <i>Less than<br/>30 days<br/>BD '000</i> | <i>31 to<br/>60 days<br/>BD '000</i> | <i>61 to<br/>89 days<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
| <b>31 December 2014</b>                |  |                                      |                                      |                          |
| <b>Loans and advances to customers</b> |  |                                      |                                      |                          |
| Commercial loans                       | 31,880                                   | 8,199                                | 3,700                                | 43,779                   |
| Consumer loans                         | 10,509                                   | 2,689                                | 3,267                                | 16,465                   |
| <b>Total</b>                           | <b>42,389</b>                            | <b>10,888</b>                        | <b>6,967</b>                         | <b>60,244</b>            |

The credit quality of other financial assets is managed by the Group using external credit ratings. The table below shows the credit quality by class of the financial assets.

|   | <i>Neither past due nor impaired</i> |                                       |  | <i>Past due or<br/>individually<br/>impaired</i> | <i>Total</i>     |
|---|--------------------------------------|---------------------------------------|--|--|------------------|
|   | <i>High<br/>grade<br/>BD '000</i>    | <i>Standard<br/>grade<br/>BD '000</i> | <i>Sub-<br/>standard<br/>grade<br/>BD '000</i> | <i>BD '000</i>                                   | <i>BD '000</i>   |
| <b>31 December 2015</b>   |                                      |                                       |  |  |                  |
| Balances with central banks   | 394                                  | 268,720                               | -  | -  | 269,114          |
| Deposits and amounts due from banks<br>other financial institutions | 243,519                              | 81,577                                | -  | -  | 325,096          |
| Treasury bills  | -                                    | 394,090                               | -  | -  | 394,090          |
| Bonds   | 275,915                              | 387,136                               | -  | 23,064   | 686,115          |
| <b>Total</b>  | <b>519,828</b>                       | <b>1,131,523</b>                      | <b>-</b>                                       | <b>23,064</b>                                    | <b>1,674,415</b> |

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As at 31 December 2015

**32 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)**

The Bank has considered a provision of BD 23,064 thousand (2014: BD 27,538 thousand) towards the impaired bonds amounting to BD 23,064 thousand (2014: BD 27,538 thousand).

31 December 2014

|                                     | <i>Neither past due nor impaired</i> |                       |                           | <i>Past due or individually impaired</i> | <i>Total</i>     |
|-------------------------------------|--------------------------------------|-----------------------|---------------------------|--|------------------|
|                                     | <i>High grade</i>                    | <i>Standard grade</i> | <i>Sub-standard grade</i> |  |                  |
|                                     | <i>BD '000</i>                       | <i>BD '000</i>        | <i>BD '000</i>            | <i>BD '000</i>                           | <i>BD '000</i>   |
| Balances with central banks         | 327                                  | 260,181               | -                         | -  | 260,508          |
| Deposits and amounts due from banks |                                      |                       |                           |  |                  |
| other financial institutions        | 127,777                              | 48,119                | -                         | -  | 175,896          |
| Treasury bills                      | -                                    | 292,683               | -                         | -  | 292,683          |
| Bonds                               | 291,797                              | 389,349               | -                         | 27,538                                   | 708,684          |
| <b>Total</b>                        | <b>419,901</b>                       | <b>990,332</b>        | <b>-</b>                  | <b>27,538</b>                            | <b>1,437,771</b> |

The following table shows the parameters used for classification of investments:

|                           | <b>S&amp;P/ Fitch</b> |         |      | <b>Moody's</b> |         |      |
|---------------------------|-----------------------|---------|------|----------------|---------|------|
| <i>High grade</i>         | Range from            | AAA to  | A-   | Range from     | Aaa to  | A3   |
| <i>Standard grade</i>     | Range from            | BBB+ to | B-   | Range from     | Baa1 to | B3   |
| <i>Sub-standard grade</i> | Range from            | CCC+ to | CCC- | Range from     | Caa1 to | Caa3 |

High grade includes unrated investments amounting to BD 7,058 thousand (2014: BD 6,147 thousand). These mainly comprise of sukuks issued by GCC governments and corporates.

**33 CARRYING AMOUNT OF FINANCIAL ASSETS WHOSE TERMS HAVE BEEN RENEGOTIATED**

The table below shows the carrying amount for financial assets by class, renegotiated during the year.

|  | <b>2015</b>    | <b>2014</b>    |
|--|----------------|----------------|
|  | <b>BD '000</b> | <b>BD '000</b> |
| <b>Loans and advances to customers</b> |                |                |
| Commercial loans                       | 105,062        | 41,177         |
| Consumer loans                         | 7,915          | 7,068          |
|  | <b>112,977</b> | <b>48,245</b>  |

**34 MARKET RISK**

Market risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives.

The Group has clearly defined policies for conducting investment (including trading investments) and foreign exchange business which stipulates limits for these activities. Investments are made strictly in accordance with investment acceptance criteria. The Group does not undertake any commodity trading activities. For management of market risk arising from movement in interest rates, refer to note 35.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**34 MARKET RISK (continued)**

The Group uses an internal Value-at-Risk (VaR) model for measuring general market risk in the trading book of the Group and all foreign exchange positions. The internal model was approved by the Central Bank of Bahrain. VaR is calculated using a 99% confidence level for a 10 day holding period. This implies a 1% possibility of the loss exceeding the VaR amount calculated by the model. As at 31 December, VaR calculated based on the above parameters was as follows:

|                  | 2015<br>BD '000 | 2014<br>BD '000 |
|------------------|-----------------|-----------------|
| Foreign exchange | 94              | 41              |
| Interest Rate    | 1               | 1               |
|                  | <u>95</u>       | <u>42</u>       |

The Bank's Risk Management Department conducts backtesting in accordance with the Market Risk Capital Adequacy Regulations issued by the Central Bank of Bahrain to ensure that the VaR model and assumptions used for computing VaR numbers are reliable. Backtesting of 1 day VaR as per actual profit and loss (comparing 1 day VaR with the average actual daily profit and loss) and also hypothetical back testing (comparing 1 day VaR with derived profit and loss of static positions) is carried out on a daily basis as stipulated in the Central Bank of Bahrain Rule book. The objective is to ensure that the assumptions used for computing VaR are reasonable and provide a VaR number that is a good indicator of possible losses in trading positions. During the year, the backtesting produced satisfactory results.

The Group also conducts stress testing to identify events or influences that could greatly impact material trading positions taken by the Group. As per the Central Bank of Bahrain requirements, validation of the internal model is conducted by the Internal Audit Department of the Bank as well as by an external consultant.

**35 INTEREST RATE RISK MANAGEMENT**

Interest rate risk is the exposure of the Group's financial condition to adverse movements of interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Group's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of the Group.

It is the Group's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Group monitors interest rate risk based on gap / duration limits. The Group also uses 'what if' scenarios for projecting net interest income and economic value of equity of the Group. The Group uses derivative instruments such as interest rate swaps, floating rate agreements and bond futures to manage interest rate risk. Whilst day to day management of interest rate risk is responsibility of the Global Treasurer, ALMC also reviews the interest rate risk reports periodically.

Based on the consolidated statement of financial position as at 31 December 2015 an increase of 100 basis point in interest rates, with all variables held constant, will result in an increase in the net interest income, for the following next 12 months, by approximately BD 9,030 thousand (2014: increase by BD 6,957 thousand). However, further downward movement of interest rates by 100 basis points might not be practical assumption in the current environment, given the current low levels of interest rates, and hence capping the downward movement of interest rates at 0%, the negative impact on the net interest income as at 31 December 2015 estimated at BD 6,593 thousands (2014: BD 2,813 thousands). On the other hand, the scope for interest rates increase from its current levels is most probable which the Bank shall benefit.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

## 35 INTEREST RATE RISK MANAGEMENT (continued)

|              | <i>Rate Shock<br/>Forecasting<br/>(+100 bps)</i> | <i>2015<br/>BD '000</i> | <i>2014<br/>BD '000</i> |              | <i>Rate Shock<br/>Forecasting<br/>(-100 bps)</i> | <i>2015<br/>BD '000</i> | <i>2014<br/>BD '000</i> |
|--------------|--|-------------------------|-------------------------|--------------|--|-------------------------|-------------------------|
| BHD          |  | 3,511                   | 2,472                   | BHD          |  | 3,306                   | 1,160                   |
| USD          |  | 3,748                   | 3,299                   | USD          |  | 1,290                   | 346                     |
| KWD          |  | 381                     | 528                     | KWD          |  | 414                     | 532                     |
| OTHERS       |  | 1,390                   | 659                     | OTHERS       |  | 1,583                   | 775                     |
| <b>TOTAL</b> |  | <b>9,030</b>            | <b>6,958</b>            | <b>TOTAL</b> |  | <b>6,593</b>            | <b>2,813</b>            |

An increase of 100 basis point in interest rates, with all other variables held constant, will result in a negative impact on equity of approximately 1.9% amounting to BD 7,296 thousand (2014: 3.1%, BD 11,532 thousand). Similarly, a decrease of 100 basis point in interest rates, with all other variables held constant, will result in a positive impact on equity of approximately 1.9% amounting to BD 7,296 thousand (2014: 3.1%, BD 11,532 thousand).

## 36 CURRENCY RISK

The functional currency of the Group is the Bahraini Dinar.

The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

|  | <i>2015<br/>BD '000<br/>equivalent<br/>long (short)</i> | <i>2014<br/>BD '000<br/>equivalent<br/>long (short)</i> |
|--|---|---|
| US dollar                                | 60,496  | 57,320  |
| Euro                                     | 51  | 52  |
| GCC currencies (excluding Kuwaiti dinar) | 8,789   | 16,396  |
| Kuwaiti dinar                            | 274   | 495   |
| Others                                   | 463   | 537   |

As the Bahraini dinar and other GCC currencies (except the Kuwaiti dinar) are pegged to the US dollar (US\$), positions in US\$ and other GCC currencies are not considered to represent a significant currency risk. For currency sensitivity impact refer to VaR (note 34).

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**37 EQUITY PRICE RISK**

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

|                                     | % change<br>in Index | Effect on equity         |                          |
|-------------------------------------|----------------------|--------------------------|--------------------------|
|                                     |                      | Total<br>2015<br>BD '000 | Total<br>2014<br>BD '000 |
| Bahrain Bourse                      | ± 15%                | 2,263                    | 2,399                    |
| Other GCC and other stock exchanges | ± 15%                | 6,815                    | 8,207                    |
|                                     |                      | <b>9,078</b>             | <b>10,606</b>            |

**38 LIQUIDITY RISK**

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Group has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. In addition, the Group maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions.

The Bank has in place a liquidity risk policy, which describes the roles and responsibilities of ALMC and Treasury, and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits under each time bucket of the maturity ladder, cumulative outflow of cash limits for each time bucket and various liquidity ratios to be maintained which are approved by the ALMC based on the Annual Liquidity Strategy.

It is the Bank's policy to keep its assets in high-quality liquid assets such as inter-bank placements, treasury bills and government bonds, to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals as they fall due for payment. A substantial proportion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of core funding.

The day to day management of liquidity risk is the responsibility of the Global Treasurer, who monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

## 38 LIQUIDITY RISK (continued)

The table below summarizes the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

## 31 December 2015

BD '000

|  | On Demand | Within 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | 10 to 20 years | More than 20 years | Total     |
|--|-----------|----------------|---------------|---------------|----------------|--------------|---------------|----------------|--------------------|-----------|
| Deposits and due to banks and other financial institutions | -         | 133,544        | 30,521        | 9,450         | 5,894          | -            | -             | -              | -                  | 179,409   |
| Borrowings under repurchase agreement                      | -         | -              | -             | -             | 5,185          | 189,127      | -             | -              | -                  | 194,312   |
| Term borrowings  | -         | -              | 619           | 308           | 3,255          | 224,838      | -             | -              | -                  | 229,022   |
| Customers' current, savings and other deposits             | 1,146,028 | 375,422        | 454,149       | 302,021       | 369,262        | 24,920       | 5,874         | 11,730         | -                  | 2,689,407 |
| Total undiscounted financial liabilities                   | 1,146,028 | 508,966        | 485,289       | 311,780       | 383,596        | 438,885      | 5,874         | 11,730         | -                  | 3,292,150 |
| Letter of Guarantees                                       | 204,617   | -              | -             | -             | -              | -            | -             | -              | -                  | 204,617   |
| Undrawn loan commitments                                   | 143,942   | -              | -             | -             | -              | -            | -             | -              | -                  | 143,942   |

## Derivative financial instruments

Contractual amounts payable

Contractual amounts receivable

|   |         |         |         |          |           |           |          |          |           |
|---|---------|---------|---------|----------|-----------|-----------|----------|----------|-----------|
| - | (2,188) | (5,614) | (6,203) | (33,733) | (343,944) | (266,099) | (40,428) | (70,685) | (768,894) |
| - | 2,931   | 6,109   | 4,625   | 28,897   | 311,508   | 248,987   | 28,921   | 61,504   | 693,482   |
| - | 743     | 495     | (1,578) | (4,836)  | (32,436)  | (17,112)  | (11,507) | (9,181)  | (75,412)  |

## 31 December 2014

BD '000

|  | On Demand | Within 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | 5 to 10 years | 10 to 20 years | More than 20 years | Total     |
|--|-----------|----------------|---------------|---------------|----------------|--------------|---------------|----------------|--------------------|-----------|
| Deposits and due to banks and other financial institutions | -         | 248,846        | 53,543        | 10,627        | 84             | -            | -             | -              | -                  | 313,100   |
| Borrowings under repurchase agreement                      | -         | -              | -             | -             | 19,739         | 20,764       | -             | -              | -                  | 40,503    |
| Term borrowings  | -         | -              | 15            | 672           | 193,305        | 55,087       | -             | -              | -                  | 249,079   |
| Customers' current, savings and other deposits             | 946,212   | 331,443        | 560,465       | 306,500       | 283,457        | 57,195       | 14,847        | -              | -                  | 2,500,120 |
| Total undiscounted financial liabilities                   | 946,212   | 580,289        | 614,023       | 317,799       | 496,585        | 133,046      | 14,847        | -              | -                  | 3,102,802 |
| Letter of Guarantees                                       | 249,497   | -              | -             | -             | -              | -            | -             | -              | -                  | 249,497   |
| Undrawn loan commitments                                   | 194,542   | -              | -             | -             | -              | -            | -             | -              | -                  | 194,542   |
| Derivative financial instruments                           | -         | (46,715)       | (10,465)      | (20,119)      | (39,774)       | (306,866)    | (282,282)     | (55,683)       | -                  | (761,904) |
| Contractual amounts payable                                | -         | 47,687         | 10,860        | 18,044        | 34,956         | 275,064      | 264,600       | 41,579         | -                  | 692,790   |
| Contractual amounts receivable                             | -         | 972            | 395           | (2,075)       | (4,818)        | (31,802)     | (17,682)      | (14,104)       | -                  | (69,114)  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**39 FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2015 and 31 December 2014.

| <b>31 December 2015</b>               | <b>Level 1<br/>BD'000</b> | <b>Level 2<br/>BD'000</b> | <b>Total<br/>BD'000</b> |
|---------------------------------------|---------------------------|---------------------------|-------------------------|
| <b>Financial assets</b>               |                           |                           |                         |
| Bonds                                 | 569,612                   | 2,664                     | 572,276                 |
| Equities                              | 60,518                    | 7,387                     | 67,905                  |
| Managed funds                         | -                         | 1,870                     | 1,870                   |
| Derivatives held for trading          | -                         | 179                       | 179                     |
| Derivatives held as fair value hedges | -                         | 2,114                     | 2,114                   |
| Derivatives held as cash flow hedges  | -                         | 43                        | 43                      |
|                                       | <b>630,130</b>            | <b>14,257</b>             | <b>644,387</b>          |
| <b>Financial liabilities</b>          |                           |                           |                         |
| Derivatives held for trading          | -                         | 26                        | 26                      |
| Derivatives held as fair value hedges | -                         | 12,412                    | 12,412                  |
| Derivatives held as cash flow hedges  | -                         | 52                        | 52                      |
|                                       | <b>-</b>                  | <b>12,490</b>             | <b>12,490</b>           |
| <b>31 December 2014</b>               | <b>Level 1<br/>BD'000</b> | <b>Level 2<br/>BD'000</b> | <b>Total<br/>BD'000</b> |
| <b>Financial assets</b>               |                           |                           |                         |
| Bonds                                 | 587,740                   | 2,637                     | 590,377                 |
| Equities                              | 70,701                    | 6,118                     | 76,819                  |
| Managed funds                         | -                         | 2,210                     | 2,210                   |
| Derivatives held for trading          | -                         | 118                       | 118                     |
| Derivatives held as fair value hedges | -                         | 2,660                     | 2,660                   |
| Derivatives held as cash flow hedges  | -                         | 209                       | 209                     |
|                                       | <b>658,441</b>            | <b>13,952</b>             | <b>672,393</b>          |
| <b>Financial liabilities</b>          |                           |                           |                         |
| Derivatives held for trading          | -                         | 20                        | 20                      |
| Derivatives held as fair value hedges | -                         | 12,348                    | 12,348                  |
|                                       | <b>-</b>                  | <b>12,368</b>             | <b>12,368</b>           |

Included under available-for-sale investments are unquoted equity and managed funds investments amounting to BD 25,284 thousand (2014: BD 26,995 thousand) which are recorded at cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**39 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****Transfers between level 1, level 2 and level 3**

During the reporting year ended 31 December 2015 and 31 December 2014, there were no transfers into and out of Level 3 fair value measurements.

The table below sets out the estimated carrying values and fair values of those on and off statement of financial position financial instruments carried at amortised cost where fair values are different from the carrying amounts shown in the consolidated financial statements:

|                                   | 2015                         |                          |                       | 2014                         |                          |                       |
|-----------------------------------|------------------------------|--------------------------|-----------------------|------------------------------|--------------------------|-----------------------|
|                                   | Carrying<br>value<br>BD '000 | Fair<br>value<br>BD '000 | Difference<br>BD '000 | Carrying<br>value<br>BD '000 | Fair<br>value<br>BD '000 | Difference<br>BD '000 |
| <b>Financial liabilities</b>      |                              |                          |                       |                              |                          |                       |
| Term borrowings                   | 204,677                      | 194,859                  | (9,818)               | 240,938                      | 243,332                  | 2,394                 |
| <b>Financial assets</b>           |                              |                          |                       |                              |                          |                       |
| Non-trading investment securities | 90,774                       | 89,205                   | (1,569)               | 90,752                       | 87,090                   | (3,662)               |

The above financial liabilities and assets are level 1 fair value.

The fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed in the table above.

**40 SHARE - BASED PAYMENTS**

The expense recognised for employee services received during the year is shown in the following table:

|  | 2015<br>BD '000 | 2014<br>BD '000 |
|--|-----------------|-----------------|
| Expense arising from equity-settled share-based payment transactions | 716             | 695             |
| Shares vested during the year  | (447)           | (436)           |

During 2010, the Nomination and Remuneration Committee of the Bank modified the employees stock option plans for the previously granted stock options. The existing plan was discontinued with effect from 31 March 2010. The Bank moved to a new long-term incentive plan, which is referred to as the Employee Performance Share Plan (EPSP), which will award shares (rather than options) to executives. The details of the modifications to stock option plan and EPSP are described below:

**Employee Performance Share Plan (EPSP)**

Shares are granted to Senior Managers and above, with more than 12 months service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period and the employee being in employment at the end of the 3 year period (vesting period).

The Bank utilises its existing treasury shares for the EPSP and may also choose to issue new shares to settle the EPSP in the future. The price of the shares granted was equal to the market price of the Bank's shares on the grant date. As at 31 December 2015, there has been a transfer of 9,498,441 shares (2014: 7,621,427 shares) from treasury stock to BBK Shares Incentives S.P.C which is in line with the Employee Performance Share Plan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2015

**40 SHARE - BASED PAYMENTS (continued)****Employee Performance Share Plan (EPSP) (continued)**

The following table illustrates the number and cost per share of the shares granted during the year under the new scheme.

|  | <i>Number of<br/>shares<br/>2015</i> | <i>Cost per<br/>share<br/>2015<br/>BD</i> | <i>Number of<br/>shares<br/>2014</i> | <i>Cost per<br/>share<br/>2014<br/>BD</i> |
|--|--------------------------------------|---|--------------------------------------|---|
| Opening balance of shares granted but not vested | 5,155,397                            | 0.415                                     | 4,744,135                            | 0.406                                     |
| Equity shares granted during the year            | 2,681,473                            | 0.432                                     | 2,123,285                            | 0.432                                     |
| Equity shares transferred to trust               | 1,877,014                            | 0.432                                     | 1,486,300                            | 0.436                                     |
| Shares transferred to active employees           | (1,117,430)                          | 0.400                                     | (1,075,038)                          | 0.406                                     |

The market price of BBK B.S.C. shares at 31 December 2015 was BD 0.436 (2014: BD 0.470).

**41 CAPITAL ADEQUACY**

The risk asset ratio calculated in accordance with the capital adequacy guidelines approved by the Central Bank of Bahrain, for the Group is as follows:

|                                    | <i>2015<br/>BD '000</i> | <i>2014<br/>BD '000</i> |
|------------------------------------|-------------------------|-------------------------|
| Capital base:                      |                         |                         |
| CET1 capital                       | 355,631                 | -                       |
| Tier 1 capital                     | -                       | 303,648                 |
| Tier 2 capital                     | 29,056                  | 73,718                  |
| Total capital base (a)             | 384,687                 | 377,366                 |
| Credit risk weighted exposure      | 2,367,734               | 2,213,713               |
| Operational risk weighted exposure | 204,947                 | 192,722                 |
| Market risk weighted exposure:     | 14,763                  | 7,625                   |
| Total risk weighted exposure (b)   | 2,587,443               | 2,414,060               |
| Capital adequacy (a/b * 100)*      | 14.87%                  | 15.63%                  |
| Minimum requirement                | 12.50%                  | 12.00%                  |

\* The capital adequacy ratio for the year 2014 was calculated based on Basel II guidance, whereas the current year calculation is based on the guidance of Basel III as required by the CBB.

**Capital management**

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.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may 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.

**Basel III and Capital management**

The Bank has adopted the new Basel III Capital Adequacy Framework (Basel III) with effect from 1 January 2015 as per the guidelines issued by the Central Bank of Bahrain which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

As at 31 December 2015

**41 CAPITAL ADEQUACY (continued)*****Basel III and Capital management (continued)***

The Bank has adopted the Standardized Approach in case of Credit Risk, the Internal Model Approach for Market Risk and the Basic Indicator Approach for Operational Risk.

The Bank has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

**42 LEGAL AND OPERATIONAL RISK*****Legal risk***

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are significantly reduced. The Group also has well established legal procedures to scrutinise product offerings and manage risks arising out of its transactions.

As at 31 December 2015, there were legal cases pending against the Group aggregating BD 814 thousand (2014: BD 824 thousand). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these cases.

***Operational risk***

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

The operational risk department operates independently from other units of the Bank and reports directly to the Audit Committee, which consists of members of the Board. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately.

The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would and operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") unit. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers, minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions.

The Bank is using an operational risk management solution for monitoring operational risk, conducting risk and control self assessments and capturing operational loss data in accordance with Basel III / Central Bank of Bahrain guidelines.

The Bank's subsidiaries have similar contingency plans for their operations.

**43 DEPOSIT PROTECTION SCHEME**

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board.

**44 STAFF SAVING SCHEME**

The scheme is a contribution saving fund between the Bank and the employee of the Bank. It was introduced in January 1996 with the objective of providing the employees with a cash benefit upon resignation, retirement or death. Participation in the scheme is discretionary and the employee may contribute any amount. The Bank guarantees a corresponding contribution of an amount that is 3% higher provided that total Bank contribution is not in excess of 10% of the employees' salary. The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2015 the total contribution fund including the earned income stands at BD 14,577 thousand (2014: BD 12,902 thousand). Out of the total fund amount, payment of the principal amount equal to BD 14,336 thousand (2014: BD 12,388 thousand) consisting of the respective staff and Bank's contribution is guaranteed by the Bank to employees participating in the scheme within the applicable law. Out of the principal amount, BD 3,912 thousand (2014: BD 2,343 thousand) is invested in Bonds issued by CBB on behalf of Bahrain's government.

**45 SUBSEQUENT EVENTS**

The Bank held an Extraordinary General Meeting ("EGM") on 28 January 2016 and resolved to issue convertible perpetual additional tier 1 securities amounting BD 100 million.

**46 COMPARATIVE FIGURES**

In the Group's consolidated financial statements for the year ended 31 December 2015 certain comparative amounts have been reclassified to conform with the presentation in the current year. The following reclassification did not result in any changes to the previously reported profit or equity:

|                              | <i>Previously<br/>reported<br/>BD'000</i> | <i>Reclassifi-<br/>cation<br/>BD'000</i> | <i>As reported<br/>herein<br/>BD'000</i> |
|------------------------------|---|--|--|
| Interest and similar income  | 117,896                                   | (9,347)                                  | 108,549                                  |
| Interest and similar expense | (45,606)                                  | 9,347                                    | (36,259)                                 |
|                              | <b>72,290</b>                             | <b>-</b>                                 | <b>72,290</b>                            |