KHALEEJI COMMERCIAL BANK BSC

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

Commercial registration	:	55133 (registered with Central Bank of Bahrain as a retail Islamic bank).
Office	:	Bahrain Financial Harbour East Tower PO Box 60002, Manama, Kingdom of Bahrain
Directors	:	Dr. Ahmed Khalil Al Mutawa, *Chairman* Abdulrahman Mohamed Jamsheer, *Vice Chairman* Abdulla Abdulkarim Showaiter Bashar Mohamed Al Mutawa Hisham Ahmed Al Rayes Khalid Rashid Al-Thani Mohammed Barrak Al-Mutair Mosobah Saif Al-Mutairy Tariq Qassim Fakhroo
Chief Executive Officer	:	Khalil Ismaeel Al-Meer
Company secretary	:	Mohammed Abdulla Saleh
Auditors	:	KPMG Fakhroo, Bahrain

KHALEEJI COMMERCIAL BANK BSC

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2015

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CHAIRMAN'S REPORT
for the year ended 31 December 2015

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

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the annual financial statements of Khaleeji Commercial Bank for the year ended 31 December 2015. This year has noticed significant economic variations and geopolitical developments. The continuation of decrease in oil prices and regional uncertainty that overshadow the global economic environment (which is linked to the US Fed rate hike, the Chinese economic market slowdown/crash and removal of the Iranian sanctions among other factors) have adversely affected the economic growth potential, and as expected, the growth and performance of global/GCC stock markets and financial institutions. This has furthermore had significant effect on the regional annual consumer spending leading to governments taking several corrective measures directed towards revision of policies and re-alignment of government subsidies in order to support the continuation of economic growth and achieve economic growth figures that surpass inflation rates.

Further to this and according to economic analysts, despite the economic uncertainty that the global market scene is witnessing, GCC countries are expected to be better equipped to face the challenges when compared with other parts around the world. This is due to the economic diversity the region is witnessing and participation of non-oil sectors in the national output along with substantial investments in the main infrastructure. These factors along with others are expected to participate in supporting such regional countries in implementing their growth strategies during the upcoming year 2016, notwithstanding that such growth will be at a slower pace than previous.

The year 2015 have witnessed the Bank successfully implementing the new strategy that has been adopted by the Board who facilitated the resources at the Bank towards achieving growth and progress. We were able to achieve significant operational progress which included the opening of branches in strategic locations and launch of new products and services related to financing individuals and corporates which further increased the Bank's market share. Furthermore, there has been a main focus on growing the banking services for high net worth individuals and increase in the banking services activities for corporates and small-medium enterprises. This has been done through focusing on assessing and improving the customer experience along with improving the internal process and support services (by utilizing technological advancements) which has been critical from the Bank restructuring point of view.

Overall Performance

Despite the adverse market and economic challenges, the Bank (with efforts of the management and support of the shareholders) was able to achieve tangible success by adopting a combination of prudent and conservative management during the year 2015. The Bank has focused on diversifying and expanding its business while maintaining conservative liquidity and capital positions.

Positive indicators of the Bank performance show a growth in total assets from BD 596.6 million in 2014 to BD 654 million in 2015, i.e. 9.6% growth from last year. Total net income growth doubled from last year, i.e. BD 8 million in 2015 compared to BD 3.8 million reported in 2014. It is worth mentioning that although the Bank has reduced its average profit rates distributed to depositors, results show that these deposits has actually grown by 12.8%, from BD 430.4 million in 2014 to BD 485.4 million in 2015, which confirm our customer's loyalty and their confidence in the Bank's products and services. Financing assets overall increased by 14.2% over 2014, reaching BD 387.8 million; with consumer finance portfolio reaching BD 123.4 million, a 56% growth over 2014. Total income from commercial banking comprises 76.1% of total income as a result of a significant increase in consumer finance activities.

CHAIRMAN'S REPORT
for the year ended 31 December 2015 *(continued)*

As the Bank continued to execute its strategic plan, the Board and the Management conducted a review to ensure that assets, especially those acquired prior to the new business model reflect realisable and fair value. Based on this review, the Board decided to take a very conservative view in dealing with the assets which were impaired or likely to be impaired in the short to medium term. Consequently, in 2015 the Bank reported a net profit of BD 8 million compared to a net profit of BD 3.8 million in 2014. 109.8% growth over 2014. Furthermore, this will provide considerable stability for the business in the future and will pave the way forward to achieving acceptable results. It is worth mentioning that, the Bank continues to maintain strong liquidity (with 22.5% of the Bank's assets being liquid) and adequate capital (the Bank has a regulatory capital adequacy ratio of 18.8% compared to a minimum regulatory mandated at 12.5%), both comfortably in excess of regulatory requirements.

2015 has been a year filled with achievements where the Bank was able to (during the month of March 2015) open a new branch in Hamad Town (Souq Waqef) with a further branch opened during September 2015 in Isa Town. This takes the Bank's total branch count to 10 branches spread around the Kingdom of Bahrain which is a step taken in line with the Bank's strategy having the objective of enhancing its services by spreading the reach and accessibility to clients. As a consequence, this will further increase the Bank's market share and presence as a leading national financial institution.

Additionally, the Bank (during the year) was able to inaugurate its new electronic banking services and revamp the electronic banking website completely to provide clients with a new, innovative and improved way of conducting transactions. The initiative has been taken due to the Bank's commitment on implementing the latest technological advancements in its products and services. Along with the introduction of advanced mobile banking services, our clients are now able to conduct their transactions with ease at their convenience and comfort. The Bank also received the "Straight-Through-Processing" Award from Standard Chartered Bank with 96.4% efficiency in the execution of electronic payments.

These positive results have been the outcome of our focus on expanding the scope of banking services for individuals and corporates (which include consumer finance, mortgage finance, auto finance, Visa credit cards, and alternative credit card - Easy 36). The new products and services launched in 2015 received positive and encouraging feedback from our clients and the Bank is continuing to work on launching new innovative products and services next year.

Moreover, the Bank's Al-Waffer account continued its steady growth with new clients subscribing for the product. The Bank will continue to enhance and improve the new cycle which will incorporate bigger prizes and greater chances for clients during the year 2016. The Bank has further introduced a new product (It'eman) aimed for financing corporates and institutions. The Corporate Banking Team was able during 2015 to execute transactions with large cap corporates and developers in relation to major projects in addition to expansion of the "Tamkeen" portfolio for financing companies. From another standpoint, the Bank's Investment Banking Team has been actively managing the portfolio of investment products and Restricted Investment Accounts (RIA's), to enhance the value of the assets held in those products and to work towards potential exits.

Organisational Development

The Board believes that, to remain competitive in the long run, building organisational capacity, including human capital, is imperative. Further to our belief that a committed and well-trained work force is a key enabler in achieving the Bank's long-term objectives, the Bank continued training and improving the human resource aspect through various external and in-house training programs in addition to training new university graduates. In addition, the Bank conducted specific workshops through Ernst & Young, which include "Advanced Female Leadership" and "Constructive Feedback", provided to the division heads. Focus on improving the human resource aspect will continue.

In order to achieve our expansion targets, the Bank hired 44 employees during the year for those obtain both university and relevant experience qualifications. The Board takes pride in the fact that 97% of the Bank's employees are Bahrainis.

In addition, and with the aim and efforts to strengthening the corporate governance, the Bank conducted a workshop through "Euromoney Learning Solutions" for the Board of Directors and Executive Management aimed at highlighting the significant aspects related to corporate governance, issues of ownership and shareholder governance strategies with focus on developing long-term partnerships with stakeholders as a key to sustainable organizational growth and success.

CHAIRMAN'S REPORT
for the year ended 31 December 2015 *(continued)*

Corporate Social Responsibility

The Board believes that, as a growing institution, the Bank has a responsibility to contribute towards the communities in which it operates, and in the past, the Bank has supported several initiatives that provided benefits to the local community. The Bank, during 2015, continued its annual Graduate Trainee Program by accommodating a large number of interns for a period of two months from across the Kingdom studying in various local and overseas universities. The selected trainees were distributed to different departments based on their specializations and were placed under the guidance of designated officials who mentored and guided them during the internship period.

The Bank further sponsored various local national activities and events, as an example (but not limited to) the Bank participated in the event and celebrations set for Bahraini Women's Day that was held under the banner of "Women's Role in the Banking and Financial Sector" and that comes as an appreciation token to the evident role of women in this vibrant sector. In addition, the Bank has continued to support the Waqf Fund and INJAZ Bahrain, and participated as a Silver Sponsor for the World Islamic Banking Conference.

The Bank further provided support to educational, health and other institutional bodies. The Bank also sponsored the Bahrain International Global Reciter Competition, organized by the Ministry of Justice, Islamic Affairs and Endowments under the patronage of His Majesty King Hamad Bin Isa Al-Khalifa. The Board has a continued commitment to expand these through the Bank's on-going programme of corporate social responsibility.

Looking Ahead

The Board believes that the recent challenges facing the Bank is expectation of the Bahraini economic to slowdown in 2016, this results from the current global economic slowdown that the region is exposed to. Despite that, the Board foresee several growth opportunities for the Bank products and services catering Individuals and small-medium enterprises. In the last five years, the Bank has taken several steps to diversify its assets, revenue streams and widen its customer base. The launch of the Bank's suite of consumer finance products and expansion of the branch network will further support this endeavour.

The key challenge in the medium term would be to build the scale necessary for the Bank to become a leading player in the local and regional market. The Bank will continue to aggressively grow its commercial and retail banking business while exploring other options; which includes viable acquisitions of other entities and asset portfolios as well as forming strategic alliances or merger with other financial institutions. The Board will also continue to expand the Bank's network of branches and distribution channels to reach wider and larger number of customers.

In addition, the Bank believes continuation in the investment in the human resource aspect is key towards achieving and overcoming the upcoming challenges, as such resource is considered as the main focal point and backbone of the institution.

The Board believes that the Bank has established a solid foundation from which to execute the new strategic plan and capitalise on opportunities currently available in the market.

Appreciation

On behalf of the Board, I would like to express my gratitude to his Majesty King Hamad Bin Isa Al-Khalifa; His Royal Highness Prince Khalifa Bin Salman Al-Khalifa, the Prime Minister; and His Royal Highness Prince Salman Bin Hamad Al-Khalifa, the Crown Prince and Deputy Supreme Commander of Bahrain Defence Force and First Deputy Prime Minister for their encouragement of the growth of the private sector and the development of the banking and finance industry in the Kingdom of Bahrain. I also extend my thanks to all government ministries, the Central Bank of Bahrain, and Bahrain Bourse for their continued guidance and support.

Special appreciation is due to the Bank's shareholders, clients and business partners for their on-going confidence and loyalty; and to the Bank's management and staff for their hard work and dedication.

Allah the almighty is the purveyor of all success.

Dr. Ahmed Khalil Al Mutawa
Chairman

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
KHALEEJI COMMERCIAL BANK BSC
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Khaleeji Commercial Bank B.S.C. ("the Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of income, changes in equity, cash flows, changes in restricted investment accounts and sources and uses of charity and zakah fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015 and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in equity, its consolidated changes in restricted investment accounts and its consolidated sources and uses of charity and zakah fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

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

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

KPMG

KPMG Fakhroo
Partner Registration No. 137
4 February 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2015

BD 000's

	Note	**31 December 2015**	31 December 2014 (restated)
ASSETS			
Cash and bank balances	3	41,286	37,360
Placements with financial institutions	4	43,953	76,006
Financing assets	5	318,714	295,755
Investment in sukuk	6	63,533	35,978
Assets acquired for leasing	7	67,811	42,981
Lease rentals receivables	7	1,289	798
Investment in equity securities	8	67,801	60,945
Investment in associates	9	2,605	2,604
Investment property	10	19,071	18,987
Development property	11	6,952	7,893
Other assets	12	12,675	8,824
Property and equipment	13	8,285	8,517
Total assets		**653,975**	596,648
LIABILITIES			
Placements from financial institutions		47,007	50,208
Placements from non-financial institutions and individuals	14	48,311	43,782
Customers' current accounts		65,848	47,718
Other liabilities	15	9,837	10,111
Total liabilities		**171,003**	151,819
Equity of investment account holders	16	**371,271**	338,934
OWNERS' EQUITY			
Share capital	17	100,000	115,416
Share premium		-	1,535
Statutory reserve		7,411	6,730
Treasury shares		(8,136)	(6,351)
Employee share incentive scheme		(284)	-
Investment fair value reserve		(86)	-
Retained earnings/(accumulated losses)		8,998	(14,226)
Total equity attributable to shareholders of the parent (page 7)		**107,903**	103,104
Non-controlling interest		3,798	2,791
Total liabilities, equity of investment account holders and owners' equity		**653,975**	596,648

The consolidated financial statements, which consist of pages 5 to 68, were approved by the Board of directors on 4 February 2015 and signed on its behalf by:

Dr. Ahmed Khalil Al Mutawa	**Abdulrahman Mohamed Jamsheer**	**Khalil Ismaeel Al-Meer**
Chairman	*Vice Chairman*	*Chief Executive Officer*

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2015 BD 000's

	Note	**2015**	2014 (restated)
Management fees		-	738
Income from placements with financial institutions		566	568
Income from financing assets and assets acquired for leasing		21,447	21,357
Income from sukuk	18	3,682	1,317
Income from equity securities	19	878	100
Share of profit from associate companies	9	1	27
Fees and other income		4,404	3,164
Total income before return to investment account holders		**30,978**	27,271
Less: Return to investment account holders before Bank's share as Mudarib	16	(16,933)	(12,843)
Bank's share as a Mudarib	16	9,551	4,002
Return to investment account holders		**(7,382)**	(8,841)
Finance expense on placements from financial institutions, non-financial institutions and individuals		(2,292)	(3,059)
Total net income		**21,304**	15,371
Staff cost	20	5,726	6,183
Depreciation	13	482	627
Other expenses	21	4,603	4,257
Total expenses		**10,811**	11,067
Profit for the year before impairment allowances		**10,493**	4,304
Impairment allowances	22	(2,472)	(481)
PROFIT FOR THE YEAR		**8,021**	3,823
Attributable to:			
Shareholders of the parent		7,014	3,093
Non-controlling interest		1,007	730
		8,021	3,823
Earnings per share			
Basic and diluted earnings per share (fils)	27	**7.30**	3.19

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015 BD 000's

2015	**Note**	**Equity attributable to shareholders of the parent**									
		Share Capital	**Share premium**	**Statutory reserve**	**Treasury shares**	**Employee share incentive scheme**	**Investment fair value reserve**	**Retained earnings**	**Total**	**Non-Controlling interest**	**Total Equity**
Balance at 1 January 2015 as previously reported		115,416	1,535	6,730	(6,351)	-	-	(14,273)	103,057	-	103,057
Impact of consolidation (refer note 2)		-	-	-	-	-	-	47	47	2,791	2,838
Balance at 1 January 2015 (restated)		**115,416**	**1,535**	**6,730**	**(6,351)**	**-**	**-**	**(14,226)**	**103,104**	**2,791**	**105,895**
Movement in fair value of investments		-	-	-	-	-	(86)	-	(86)	-	(86)
Profit for the year		-	-	-	-	-	-	7,014	7,014	1,007	8,021
Total recognised income and expense for the year		**-**	**-**	**-**	**-**	**-**	**(86)**	**7,014**	**6,928**	**1,007**	**7,935**
Capital reduction	17	(15,416)	(1,535)	-	-	-	-	16,951	-	-	-
Transfer to statutory reserve		-	-	681	-	-	-	(681)	-	-	-
Net treasury shares purchased		-	-	-	(2,237)	-	-	-	(2,237)	-	(2,237)
Transfer for share incentive scheme		-	-	-	419	(419)	-	-	-	-	-
Adjustment for shares forfeited		-	-	-	33	-	-	-	33	-	33
Transfer to Zakah fund		-	-	-	-	-	-	(19)	(19)	-	(19)
Issue of shares under incentive scheme		-	-	-	-	135	-	(41)	94	-	94
Balance at 31 December 2015		**100,000**	**-**	**7,411**	**(8,136)**	**(284)**	**(86)**	**8,998**	**107,903**	**3,798**	**111,701**

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

BD 000's

2014 (restated)	Equity attributable to shareholders of the parent								
	Share Capital	Share premium	Statutory reserve	Treasury shares	Investment fair value reserve	Accumulated losses	Total	Non-Controlling interests	Total equity
Balance at 1 January 2014 as previously reported	115,416	1,535	6,425	(6,351)	-	(17,014)	100,011	-	100,011
Impact of consolidation (refer note 2)	-	-	-	-	-	-	-	2,061	2,061
Balance at 1 January 2014 (restated)	115,416	1,535	6,425	(6,351)	-	(17,014)	100,011	2,061	102,072
Profit for the year	-	-	-	-	-	3,093	3,093	730	3,823
Total recognised income and expense for the year	-	-	-	-	-	3,093	3,093	730	3,823
Transfer to statutory reserve	-	-	305	-	-	(305)	-	-	-
Balance at 31 December 2014	115,416	1,535	6,730	(6,351)	-	(14,226)	103,104	2,791	105,895

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

BD 000's

	Note	**2015**	2014 (restated)
OPERATING ACTIVITIES			
Disbursements of financing assets, net		(2,101)	(34,557)
Payment for asset acquired for leasing, net		(26,044)	(8,231)
Management fees received		-	2,079
Income from short-term placements received		566	568
Returns paid to investment account holders		(7,953)	(9,422)
Net receipts from investment account holders		32,337	46,885
Expense paid on placements		(2,292)	(3,060)
Payment for expenses		(11,234)	(8,697)
Other receipts		5,263	1,857
Payment for charity		(193)	(65)
Receipts in customers' current accounts		18,130	28,905
Placements from financial institutions, net		(3,202)	7,269
Placements from non-financial institutions and individuals, net		4,529	(37,130)
Net payment to CBB reserve account		(1,995)	(1,790)
Net cash generated/ (used in) operating activities		**5,811**	(15,389)
INVESTING ACTIVITIES			
Purchase of sukuk		(67,842)	(41,850)
Purchase of equity securities		(10,011)	(18)
Proceed from redemption / sale of sukuk		40,300	46,635
Proceed from redemption / sale of equity securities		233	94
Proceed from redemption of investment in associates		-	104
Income from sukuk		2,424	1,070
Dividend / income from equity securities		998	100
Purchase of property and equipment		(250)	(763)
Net cash (used in)/ generated from investing activities		**(34,148)**	5,372
FINANCING ACTIVITIES			
Payment for treasury shares		(1,785)	-
Net cash used in financing activities		**(1,785)**	**-**
Net decrease in cash and cash equivalents		**(30,122)**	(10,017)
Cash and cash equivalents at 1 January		96,491	106,508
Cash and cash equivalents at 31 December		**66,369**	96,491
Cash and cash equivalent comprise:			
Cash and bank balances (excluding CBB reserve)	3	22,416	20,485
Placements with financial institutions	4	43,953	76,006
		66,369	96,491

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2015 BD 000's

2015	Balance at 1 January 2015			Movements during the year						Balance at 31 December 2015		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (withdrawals) BD 000's	Revalua-tion BD 000's	Gross income/ (loss) BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstra-tion expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Safana Investment WLL (RIA 1)	8,313	1.00	8,313	-	-	-	-	-	-	8,313	1.00	8,313
Janayen Holding Limited (RIA 4)	48,082	0.09	4,560	-	22	4,048	-	-	(130)	48,082	0.18	8,500
Shaden Real Estate Investment WLL (RIA 5)	8,100	1.00	8,100	(4,372)	-	-	-	-	-	3,728	1.00	3,728
Locata Corporation Pty Ltd (RIA 6)	2,633	0.38	993	-	-	-	-	-	-	2,633	0.38	993
			21,966	**(4,372)**	**22**	**4,048**	**-**	**-**	**(130)**			**21,534**

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2015 *(continued)*

BD 000's

2014	Balance at 1 January 2014			Movements during the year						Balance at 31 December 2014		
	No of units (000's)	Average value per share BD	Total BD 000's	Investment (withdrawals) BD 000's	Revaluation BD 000's	Gross income/ (loss) BD 000's	Dividends paid BD 000's	Bank's fees as an agent BD 000's	Adminstration expenses BD 000's	No of units (000's)	Average value per share BD	Total BD 000's
Al Hareth French Property Fund	17.05	520.12	8,868	(3,512)	(1,052)[1]	(4,304)	-	-	-	-	-	-
Safana Investment WLL (RIA 1)	8,323	1.00	8,323	-	(10)	-	-	-	-	8,313	1.00	8,313
Janayen Holding Limited (RIA 4)	48,082	0.11	5,264	-	5	226	(746)	-	(189)	48,082	0.09	4,560
Shaden Real Estate Investment WLL (RIA 5)	8,100	1.00	8,100	-	-	-	-	-	-	8,100	1.00	8,100
Locata Corporation Pty Ltd (RIA 6)	2,948	0.34	1,001	(8)	-	-	-	-	-	2,633	0.38	993
			31,556	(3,520)	(1,057)	(4,078)	(746)	-	(189)			21,966

[1] Includes gain or loss on revaluation of foreign currency balances as at the year end.

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND
for the year ended 31 December 2015 BD 000's

	2015	2014
Sources of charity and zakah fund		
At 1 January	859	835
Contributions by the Bank	-	-
Non-Islamic income	61	89
Total sources	**920**	924
Uses of charity and zakah fund		
Contributions to charitable organisations	193	65
Total uses	**193**	65
Undistributed charity and zakah fund at 31 December (note 29)	**727**	859

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITY

Khaleeji Commercial Bank BSC (“the Bank”), a public shareholding company, was incorporated on 24 November 2004 in the Kingdom of Bahrain under Commercial Registration No. 55133. The Bank operates under an Islamic retail banking license granted by the Central Bank of Bahrain (“CBB”) on 20 October 2003. The Bank’s shares are listed on the Bahrain Bourse.

The Bank’s activities are regulated by the Central Bank of Bahrain (CBB) and supervised by a Religious Supervisory Board to ensure adherence to Shari’a rules and principles in its transactions and activities.

The principal activities of the Bank include providing banking and investment products and services to retail customers, high net worth individuals, corporate entities, and financial institutions. These include retail and corporate banking, consumer finance, wealth management, structured investment products and project financing facilities which comply with Islamic Shari’a rules and principles as determined by the Bank’s Shari’a Supervisory Board.

The consolidated financial statements include the financial statements of the Bank and its subsidiaries (together “the Group”). The significant subsidiaries are as follows:

Name	Country of incorporation	% holding	Nature of business
Hawafiz Khaleeji Management Company BSC (c)	Bahrain	100%	To hold shares for the beneficial interest of the employee incentive scheme. (refer note 23)
Harbour Tower West 2 Real Estate SPC	Bahrain	100%	To hold property for the beneficial interest of the Bank.
Harbour Tower West 4 Real Estate SPC	Bahrain	100%	To hold property for the beneficial interest of the Bank.
Surooh Limited	Cayman Islands	19.08%	To construct and sell properties at “Oryx Hills”.
Eqarat Al Khaleej	Cayman Islands	10%	To buy, sell and lett out income producing properties across the GCC.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for those changes arising from revised/new AAOIFI financial accounting standards.

(a) New standards, amendments, and interpretations effective from 1 January 2015

i) Amendments to Financial Accounting Standard (FAS) No. 23 – Consolidation

During the year, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) issued amendments to FAS 23 which are effective from 1 January 2015. These amendments provide clarification and expand the scenarios for assessing control when an entity holds less than majority voting rights in an investee. In particular, the concept of de-facto control has been introduced. The amendment clarifies that where the Bank has less than majority voting rights in an investee, control may also exist through 1) agreement with the entity's other shareholders or the entity itself; 2) rights arising from other contractual arrangements; 3) the Bank’s voting rights (de facto power); 4) potential voting rights; or 5) a combination thereof.

Further, FAS 23 does not provide specific guidance for assessment of control over special purpose vehicles (SPVs) and the Bank previously referred to the relevant guidance in International Financial Reporting Standards (IFRSs). As a result of revision to IFRS 10 (consolidation), the Group has now also changed its accounting policy for determining when it has control over SPVs to be in line with IFRS 10.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Amendments to Financial Accounting Standard (FAS) No. 23 – Consolidation (continued)

The new control model focuses on whether the Group has power over an SPV, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns. In particular, expanded guidance has been provided to assess whether the Group's decision making rights over an investee would be considered as those of a principal (primarily for its own benefit) and when it would be considered to be that of an agent (primarily for benefit of its investors).

In accordance with the transitional provisions of the amended FAS 23, the Group re-assessed its control conclusions for its investees as of 1 January 2015. As a consequence, the Group has changed its control conclusion in respect of its investment in Surooh Limited and Eqarat Al-Khaleej, which were previously accounted for as an equity investments at fair value through equity. The conclusion is based on the assessment that the Group, in addition to its power over relevant activities as an investment manager, continues to have significant variability from its involvement with these investees. Previously, the Group would not have consolidated such investments. Accordingly, in accordance with the transitional provision of the amended FAS 23, the Group applied the change in policy retrospectively, and has restated the relevant amounts as if the investee had been consolidated from the date the Bank obtained control. The quantitative impact of the changes is set out in (ii) below.

ii) Impact of changes in accounting policies:

BD 000's

Consolidated statement of financial position - 1 January 2014	**As previously reported**	**Impact of consolidation**	**As restated**
Assets			
Cash and bank balances	38,848	1	38,849
Financing assets	253,635	(9,739)	243,896
Investment property	6,583	4,195	10,778
Development property	-	12,483	12,483
Other assets	23,342	(252)	23,090
Total assets	542,242	6,688	548,930
Liabilities			
Customers' current accounts	18,923	(126)	18,797
Other liabilities	7,409	4,752	12,161
Total liabilities	150,182	4,626	154,808
Equity			
Non-controlling interest	-	2,061	2,061
Accumulated losses	(17,014)	-	(17,014)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) Impact of changes in accounting policies (continued):

BD 000's

Consolidated statement of financial position - 31 December 2014	**As previously reported**	**Impact of consolidation**	**As restated**
Assets			
Cash and bank balances	37,358	2	37,360
Financing assets	303,943	(8,188)	295,755
Investment property	13,715	5,272	18,987
Development property	-	7,893	7,893
Other assets	9,079	(255)	8,824
Total assets	591,924	4,724	596,648
Liabilities			
Customers' current accounts	47,828	(110)	47,718
Other liabilities	8,115	1,996	10,111
Total liabilities	149,933	1,886	151,819
Equity			
Non-controlling interest	-	2,791	2,791
Accumulated losses	(14,273)	47	(14,226)

BD 000's

Consolidated income statement - For the year ended 31 December 2014	**As previously reported**	**Impact of consolidation**	**As restated**
Income from financing assets and assets acquired for leasing	22,882	(1,525)	21,357
Fees and other income	2,782	1,255	3,164
Total income before return to investment account holders	26,476	795	27,271
Other expenses	4,238	19	4,257
Total expenses	11,048	19	11,067
Profit for the year	3,046	777	3,823

New standards, amendments and interpretations issued but not effective

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016 and are expected to be relevant to the Group.

FAS 27 – Investments Accounts

FAS 27 Investments accounts was issued in December 2014 replacing FAS 5 – 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 – 'Equity of Investment Account Holders and their Equivalent'. This standard is effective for financial periods beginning 1 January 2016. The adoption of this standard is expected to expand disclosures related to equity of investment account holders and is not expected to have a significant impact on the financial statements of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance

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

(c) Basis of preparation

The consolidated financial statements are presented in Bahraini Dinars, being the principal currency of the Bank's operations. They are prepared on the historical cost basis except for the measurement at fair value of certain investments carried at fair value.

The Group classifies its expenses in the income statement by the nature of expense method.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 24.

(d) Basis of consolidation

(i) Subsidiaries

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

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE. The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors.

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 25.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation (continued)

(ii) Associates

Associates are those enterprises in which the Group holds, directly or indirectly, more than 20% of the voting power and exercises significant influence, but not control, over the financial and operating policies.

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

(iii) Transactions eliminated on consolidation

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

(e) Foreign currency transactions

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

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

The other Group companies functional currencies are either denominated in Bahraini dinars or US dollars which is effectively pegged to the Bahraini dinar. Hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in an exchange differences.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment securities

Investment securities comprise equity investments and investments in sukuk. Investment securities exclude investments in subsidiaries and equity accounted associate companies (refer note 2(c)).

(i) Classification

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

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

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

Debt-type investment classified and measured at FVTIS include investments held for trading or designated at FVTIS. At inception, a debt-type investment managed on a contractual yield basis, can only be designated at FVTIS if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. Debt-type instruments at FVTIS include investments in medium to long-term (quoted) sukuk.

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

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

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'. The Group has currently classified certain long-term listed equity sukuk and a private equity investment under this category.

Equity-type investments designated at FVTIS include investments which are managed and evaluated internally for performance on a fair value basis. This category currently includes an investment in private equity.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment securities (continued)

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

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

(iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For FVTIS investments, transaction costs are expensed in the income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains/losses are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

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

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investment securities (continued)

(iv) Measurement principles (continued)

For certain unquoted investments, the Group uses proprietary models, which usually are developed from recognised valuation models for fair valuation. Some or all of the inputs into these models may not be market observable, but are estimated based on assumptions. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

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

(f) Financing assets

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudharaba, Istisna and Wakala contracts. Financing assets are recognised on the date at which they are originated and are carried at their amortised cost less impairment allowances, if any.

(g) Placements with and from financial institutions, non-financial institutions and individuals

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

(h) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances (excluding CBB reserve account), and placement with financial institutions with maturities of three months or less when acquired which are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

(i) Assets acquired for leasing

Assets acquired for leasing (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the asset passes to the lessee at the end of the lease term, provided that all lease instalments are settled. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the period of the lease. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the income statement.

(j) Investment property

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment property. The Group follows cost model to measure its investment property and carries it at cost less depreciation and impairment allowances, if any. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Investment property of the Group includes plots of land held for capital appreciation purposes and villas held for earning rentals.

Land is not depreciated and buildings are depreciated over 25 years. When use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification become its cost for subsequent accounting.

(k) Development properties

Development property consists of land and villas being developed for sale in the ordinary course of business and costs incurred in bringing such property to its saleable condition.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Development properties (continued)

Development property is stated at lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less costs to complete development and selling expenses.

(l) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and impairment allowances, if any. Property includes land which is not depreciated and buildings which are depreciated over 25 years. Other equipment is depreciated using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 3 to 5 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(m) Impairment of assets

The Group assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of financing facility or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets carried at amortised cost

These include debt-type instruments, financing assets and receivables. For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level.

All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

Equity investments carried at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. The group considers a decline of 30% to be significant and a period of six months to be prolonged. If any such evidence exists, 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 income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets (continued)

Other non-financial assets

The carrying amount of the Group’s assets (other than for financial assets covered above), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

(n) Customers’ current accounts

Balances in current (non-investment) accounts are recognised when received by the Bank. The transaction are measured at the cash equivalent amount received by the Bank at the time of contracting. At the end of the accounting period, the accounts are measured at their book value.

(o) Equity of investment account holders

Equity of investment account holders are funds held by the Bank in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Bank to invest the account holders’ funds in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Bank charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Bank’s share of income as a Mudarib. The allocation of income is determined by the management of the Bank within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Bank and are not charged separately to investment accounts.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Bank out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Bank out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Restricted investment accounts

Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Bank as an investment manager based on either a Mudharaba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Bank in the consolidated financial statements.

(g) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

(q) Treasury shares

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

(r) Statutory reserve

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

(s) Revenue recognition

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management fees, placement and arrangement fees and syndication fees, are recognised as the related services are performed.

Income from Murabaha and Wakala contracts are recognised on a time-apportioned basis over the period of the contract using the effective profit method.

Profit or losses in respect of the Bank's share in **Musharaka and Mudharaba financing** transaction that commence and end during a single financial period are recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka and Mudharaba financing continues for more than one financial period, profit is recognised to the extent that such profits are being distributed during that period in accordance with profit sharing ratio as stipulated in the agreements.

Istisna'a revenue and the associated profit margin is recognised using the percentage of completion method.

Income from assets acquired for leasing (Ijarah Muntahia Bittamleek) are recognised proportionately over the lease term.

Income from sukuk and income/expenses on placements is recognised at its effective profit rate over the term of the instrument.

Dividend income is recognised when the right to receive is established.

Rental income is recognised on a straight line basis over the term of the contract.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Earnings prohibited by Shari'a

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

(u) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 Zakah using the net assets method. Zakah is paid by the Group based on the eligible reserve and retained earnings balances at the end of the year and the remaining Zakah is payable by individual shareholders. The Bank calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The Group also pays Zakah on the balance of treasury shares held at the year-end based on the pro-rata share of Zakah. The calculations of Zakah is approved by the Shari'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment account holders.

(v) Employee benefits

(i) Short-term benefits

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

(ii) Post-employment benefits

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

Expatriate employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date.

These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the income statement.

The Bank also operates a voluntary employees saving scheme under which the Bank and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is managed and administered by a board of trustees who are employees of the Bank. The scheme is in the nature of a defined contribution scheme and contributions by the Bank are recognised as an expense in the income statement when they are due.

(iii) Share-based employee incentive scheme

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Employee benefits (continued)

(iii) Share-based employee incentive scheme (continued)

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(v) Dividends and board remuneration

Dividends to shareholders and board remuneration are recognised as liabilities in the period in which they are declared.

(w) Trade date accounting

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

(x) Offsetting

Financial assets and liabilities are offset only when there is a legal or Shari’a based enforceable right to set-off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(y) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(z) Deposit Protection Scheme

Funds held with the Bank in unrestricted investment accounts and current accounts are covered by the Deposit Protection Scheme (‘the Scheme’) established by the Central Bank of Bahrain regulation in accordance with Resolution No (34) of 2010.

The Scheme applies to all eligible accounts held with the Bank subject to certain specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

3. CASH AND BANK BALANCES

	31 December 2015	31 December 2014 (restated)
Cash	6,520	2,550
Balances with banks	10,386	12,801
Balances with the Central Bank:		
- Current account	5,510	5,134
- Reserve account	18,870	16,875
	41,286	37,360

The reserve account with the Central Bank of Bahrain is not available for day-to-day operational purposes.

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4. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
Gross Murabaha and Wakala receivable	43,969	76,030
Less: Deferred profits	(16)	(24)
	43,953	76,006

The average profit rate on placement with financial institutions for 2015 was 1.23% per annum (31 December 2014: 0.70% per annum).

5. FINANCING ASSETS

	31 December 2015	31 December 2014 (restated)
Murabaha	277,130	234,533
Musharaka	22,412	37,141
Wakala	31,717	36,256
Mudharaba	1,188	1,276
Istisna	35	218
	332,482	309,424
Less: Impairment allowances – specific	(10,284)	(10,192)
Less: Impairment allowances – collective	(3,484)	(3,477)
	318,714	295,755

Murabaha financing receivables are net of deferred profits of BD 33,583 thousand (2014: BD 32,490 thousand).

Of the total financing asset portfolio, consumer financing receivables amounted to BD 55,049 thousand (2014: BD 36,701 thousand).

The movement in impairment allowances are as follows:

2015	**Specific**	**Collective**	**Total**
At 1 January	10,192	3,477	**13,669**
Net charge for the year	1,025	7	**1,032**
Adjusted on write-off of assets	(933)	-	**(933)**
At 31 December	**10,284**	**3,484**	**13,768**

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5 FINANCING ASSETS (continued)

2014	Specific	Collective	Total
At 1 January	12,529	3,796	16,325
Net charge for the year	129	(319)	(190)
Adjusted on write-off of assets	(2,466)	-	(2,466)
At 31 December	10,192	3,477	13,669

6. INVESTMENT IN SUKUK

	31 December 2015	31 December 2014
Debt type instruments:		
- Unquoted sukuk *(at amortised cost)*	63,533	30,619
- Quoted sukuk *(at fair value through income statement)*	-	398
Equity type instruments:		
- Listed sukuk (*at fair value through income statement*)	-	4,961
	63,533	35,978

During the year, impairment allowances of BD 131 thousand (31 December 2014: BD 100 thousand) was recognised on unquoted debt type instruments carried at amortised cost.

Debt type instruments are net of specific impairment allowances of BD 431 thousand (2014: BD 300 thousand).

7. ASSETS ACQUIRED FOR LEASING

	2015	2014
Cost		
At 1 January	50,366	39,929
Additions during the year	34,430	20,218
Settlements/adjustments during the year	(9,470)	(9,781)
At 31 December	**75,326**	50,366
Accumulated depreciation		
At 1 January	7,385	7,868
Charge for year	9,600	9,298
Settlements during the year	(9,470)	(9,781)
At 31 December	**7,515**	7,385
Net book value at 31 December	**67,811**	42,981

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7 ASSETS ACQUIRED FOR LEASING (continued)

At 31 December 2015, accrued lease rental receivable amounted to BD 1,289 thousand (2014: BD 798 thousand). Lease rental receivable is net of collective provision of BD 698 thousand (2014: BD 442 thousand) and specific provision of BD 25 thousand (2014: Nil). During the year, an impairment allowance of BD 280 thousand (2014: BD 82 thousand) was made on the lease rental receivables.

Of the total net book value of assets acquired for leasing, consumer financing amounted to BD 66,694 thousand (2014: BD 42,684 thousand).

8. INVESTMENT IN EQUITY SECURITIES

	31 December 2015	31 December 2014
At fair value through income statement		
- Unquoted equity securities (at fair value)	15,148	15,148
At fair value through equity		
- Unquoted equity securities (carried at cost less impairment)*	49,099	45,797
-Listed equity securities (at fair value)	3,554	-
	67,801	60,945

* Unquoted equity securities at fair value through equity comprise investments in closed companies managed by external investment managers or represent investments in projects promoted by the Group. These investments are carried at cost less impairment in the absence of a reliable measure of fair value. The Group intends to exit these investments principally by means of private placements, strategic buy outs, sale of underlying assets or through initial public offerings.

During the year, impairment allowances of BD 766 thousand (31 December 2014: BD 432 thousand) was recognised on equity securities carried at cost and impairment allowance of BD 263 thousand (31 December 2014: Nil) was recognised on listed equity securities carried at fair value through equity.

Unquoted equity securities carried at cost are net of specific impairment allowances of BD 17,547 thousand (2014: BD 16,781 thousand). Listed equity securities carried at fair value through equity are net of specific impairment allowances of BD 263 thousand (2014: Nil).

Subsequent events
Subsequent to the year end, the Bank disposed investments in equity securities amounting to BD 7.54 million under a swap arrangement wherein it has acquired investments in projects promoted by the Bank for an equivalent amount. Further, of the total investments acquired, a portion amounting to BD 3.77 million were sold to a related party for cash consideration. The above transactions were part of a portfolio rebalancing strategy of the Bank.

Up to the date these financial statements were approved, the listed equity portfolio declined in value by BD 378 thousand due to temporary market volatility.

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9. INVESTMENT IN ASSOCIATES

	2015	2014
At 1 January	2,604	2,681
Redemption during the year	-	(104)
Share of profit for the year	1	27
At 31 December	**2,605**	2,604

Investment in associates comprise:

Name	**Country of incorporation**	**% holding**	**Nature of business**
Capital Real Estate Projects Company BSC (c)	Bahrain	30.0%	Real estate holding and development
Amlak II SPV	Cayman Islands	23.51%	Purchase and sale of real estate in the Kingdom of Bahrain

Summarised financial information of associates that have been equity accounted not adjusted for the percentage ownership held by the Group (based on their most recent unaudited management accounts):

	2015	2014
Total assets	10,342	10,643
Total liabilities	787	1,084
Total revenues	649	448
Total net (loss)/profit	(1)	101

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10. INVESTMENT PROPERTY

	Land	Building	2015 Total	2014 Total
At 1 January	16,652	3,601	20,253	20,253
Impairment	-	(30)	(30)	(348)
At 31 December	**16,652**	**3,571**	**20,223**	19,905
Accumulated Depreciation				
At 1 January	-	1,008	1,008	864
Charge for year	-	144	144	144
At 31 December	-	**1,152**	**1,152**	1,008
Net book value at 31 December 2015	**16,652**	**2,419**	**19,071**	18,897

Investment property comprise four plots of land, 3 buildings and thirteen villas held with the objective of future capital appreciation and to earn periodical income.

In 2010, the Bank had received two plots of land located in Bahrain Financial Harbour project in consideration for sale of an investment. Of the two plots of land received, one plot is intended for the Group's own use and has been classified under "Property and equipment" (refer note 13). The second plot of land has been classified as "Investment property".

In December 2014, the Bank recognised three plots of land and thirteen villas located in Bahrain, received as consideration for settlement/ foreclosure of three non-performing financing deals (refer note 34).

11. DEVELOPMENT PROPERTY

	31 December 2015	31 December 2014 (restated)
At 1 January	11,477	16,905
Transfer on sale of villas	(2,750)	(5,428)
	8,727	11,477
Less: provision for decline in net realisable value	(1,775)	(3,584)
At 31 December	**6,952**	7,893

Development properties comprise of 22 villas owned through a subsidiary Company in the Sakheer area held for sale in the ordinary course of business.

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11. DEVELOPMENT PROPERTY (continued)

Movement of provision for decline in net realisable value:

	31 December 2015	31 December 2014 (restated)
Balance at 1 January	3,584	4,506
Write back for the year	(744)	(91)
Transfer on sale of villas	(1,065)	(831)
Balance at 31 December	**1,775**	3,584

Net realisable value of the properties as at 31 December 2015 has been assessed by the management and a write back of provision of BD 744 thousand (2014: BD 91 thousand) has been made based on current estimate of selling prices and selling expenses.

12. OTHER ASSETS

	31 December 2015	31 December 2014 (restated)
Qardh Hassan receivable	5,029	5,029
Prepayments	600	686
Income from sukuk receivable	1,313	200
Other receivables	5,733	2,909
	12,675	8,824

Qardh Hasan receivable is net of impairment allowance of BD 955 thousand (2014: 955 thousand).Other receivables is net of impairment allowance of BD 722 thousand (2014: BD 722 thousand).

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13. PROPERTY AND EQUIPMENT

	Land (note 10)	Building	Furniture and fixtures	Computers	Motor vehicle and Other equipment	Work-in-progress	2015 Total	2014 Total
Cost								
At 1 January	6,714	493	4,224	3,352	385	569	15,737	14,974
Additions	-	-	37	135	74	449	695	763
Capitalisation	-	-	154	325	36	(515)	-	-
Disposal	-	(493)	-	(1)	(42)	-	(536)	-
At 31 December	**6,714**	**-**	**4,415**	**3,811**	**453**	**503**	**15,896**	15,737
Accumulated Depreciation								
At 1 January	-	39	3,884	2,988	309	**-**	7,220	6,593
Charge for year	-	9	193	240	40	-	482	627
Disposal	-	(48)	-	(1)	(42)	-	(91)	-
At 31 December	-	**-**	**4,077**	**3,227**	**307**	**-**	**7,611**	7,220
Net book value at 31 December 2015	**6,714**	**-**	**338**	**584**	**146**	**503**	**8,285**	8,517
Net book value at 31 December 2014	6,714	454	340	364	76	569	8,517	

14. PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

	31 December 2015	31 December 2014
Non-financial institutions	17,738	23,263
Individuals	30,573	20,519
	48,311	43,782

These represent placements in the form of Murabaha contracts.

15. OTHER LIABILITIES

	31 December 2015	31 December 2014 (restated)
Mudaraba profit accrual	2,831	3,153
Employee related accruals	530	775
Charity and zakah payable (page 12)	727	859
Payable for Istisna'a contracts	113	111
Other payables and accrued expenses	5,636	5,213
	9,837	10,111

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16. EQUITY OF INVESTMENT ACCOUNT HOLDERS

The funds received from investment account holders have been commingled and jointly invested with the Bank in the following asset classes as at 31 December:

	31 December 2015	31 December 2014
Balances with banks	10,386	12,799
CBB reserve account	18,870	16,875
Placements with financial institutions	43,953	76,006
Debt type instruments – sukuk	63,533	31,017
Equity type instrument – sukuk	-	4,961
Financing assets	234,529	197,276
	371,271	338,934

The investors' share of the return on jointly invested assets and distribution to investment account holders were as follows:

	2015	2014
Investors' share of returns from jointly invested assets	16,933	12,843
Banks share as Mudarib	(9,551)	(4,002)
Return / distribution to investment account holders	**7,382**	8,841

Approximately 1.98% (31 December 2014: 2.60%) was distributed to investors and the balance was retained by the Bank as a Mudarib fee. As at 31 December 2015, the balance of profit equalisation reserve was Nil (2014: Nil) and the balance of investment risk reserve was Nil (2014: Nil).

17. SHARE CAPITAL

	31 December 2015	31 December 2014
Authorised:		
3,000,000,000 ordinary shares of BD 0.100 each	**300,000**	300,000
Issued and fully paid up:		
1,000,000,000 ordinary shares (2014: 1,154,161,084) of BD 0.100 each	**100,000**	115,416

The Bank has only one class of equity shares and the holders of these shares have equal voting rights. At 31 December 2015, the Group holds 68,051,325 as treasury shares (2014: 28,621,332).

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17 SHARE CAPITAL (continued)

The shareholders in their extraordinary general meeting held on 30 March 2015, approved to write-off the Bank's accumulated losses of BD 16,951 thousand as at 31 December 2014 by adjusting BD 1,535 thousand against the share premium and BD 15,416 thousand against paid up share capital. The capital reduction was effected by cancellation of 154,161,084 shares per 10 shares held thereby reducing the Bank's paid up share capital from 1,154,161,084 shares (BD 115,416 thousand) to 1,000,000,000 shares (BD 100,000 thousand) The amendments to the memorandum and article of association is in progress.

Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of Shares	Number of Shareholders	% of total outstanding shares
Less than 1%	143,279,952	533	14.33
1% up to less than 5%	97,216,543	6	9.72
5% up to less than 10%**	149,410,393	2	14.94
10% up to less than 20%	140,101,761	1	14.01
20% and less than 50%	469,991,351	1	47.00
	1,000,000,000	**543**	**100.00**

** Expressed as a percentage of total outstanding shares of the Bank.*

*** Includes treasury shares and unvested employee incentive scheme shares.*

Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding shares:

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group *	Bahrain	469,991,351	47.00
Al Imtiaz Investment Company KSCC	Kuwait	141,101,761	14.01
Emirates Islamic Bank PJSC	UAE	86,186,596	8.61
Khaleeji Commercial Bank B.S.C	Bahrain	63,223,797	6.30

*As at 31 December 2015, these shares representing 47.00% were held by KHCB Asset Company on behalf of GFH Financial Group, which is considered as the parent of the Bank for financial reporting purposes.

18. INCOME FROM SUKUK

	2015	2014
Profit earned on debt-type Sukuk	3,341	801
Other income and gain on sale of Sukuk	341	516
	3,682	1,317

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19. INCOME FROM EQUITY SECURITIES

	2015	2014
Dividend from unquoted investment	539	271
Net loss on listed investments	(86)	-
Gain / loss on disposal of investment	425	(171)
	878	100

20. STAFF COST

	2015	2014
Salaries and short-term benefits	4,877	5,440
Social insurance expenses	711	662
Other staff expenses	138	81
	5,726	6,183

21. OTHER EXPENSES

	2015	2014 (restated)
Premises cost	1,101	1,008
Advertisement and marketing expenses	862	779
Professional fees	566	685
Information technology expenses	411	474
Board expenses	196	216
Communication expenses	301	239
Distribution channel expenses	314	192
Other administrative expenses	852	664
	4,603	4,257

22. IMPAIRMENT ALLOWANCES

	2015	2014
Financing assets (note 5)	1,032	(190)
Lease rental receivable (note 8)	280	82
Investments at fair value through equity- at cost (note 7)	766	432
Investments at fair value through equity- at fair value (note 7)	263	-
Investments at amortised cost (note 6)	131	100
Other assets (note 12)	-	57
	2,472	481

23. SHARE-BASED EMPLOYEE INCENTIVE SCHEME

The group has incorporated a special purpose vehicle, Hawafiz Khaleeji Management Company BSC (c) (''Hawafiz''), to hold the beneficial interest of the shares under the scheme.

The shareholders, in their annual general meeting held on 30 March 2015, approved the employee share based incentive scheme (the "scheme") which is in line with the CBB's Sound Remuneration Practices. Under the share incentive scheme, certain covered employees are granted the Bank's shares as compensation of their performance.

As per the scheme, the share awards from each performance year will vest immediately but will be released over three years period from the date of grant. The share awards are subject to an additional retention period of six months from the date of completion of deferred period, after which the employee is unconditionally allowed to sell the shares in the market. The scheme allows the Bank's BNRGC to determine that, if appropriate, un-awarded shares can be forfeited or clawed back in certain situations.

As at 31 December 2015, 6,917,367 shares was held by Hawafiz. During the year 2,089,839 shares were awarded to the employees as awards under the terms of the scheme subject to a three year period.

24. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgements

Classification of investments
In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as debt type instruments carried at fair value through equity or amortised cost, or equity-type instruments carried at fair value through equity or fair value through income statement. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification [refer note 2 (e)].

Special purpose entities
The Bank sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Bank provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Bank administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments.

The Bank does not consolidate SPE's that it does not have the power to control. In determining whether the Bank has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group's intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Estimations

Impairment of equity investments
The Group determines that equity securities carried at fair value are impaired when there is an objective evidence of impairment and there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

In case of quoted equity securities, the Group considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 6 months as prolonged.

24 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Estimations (continued)

Where fair values are not readily available and the investments are carried at cost, the recoverable amount of such investment is estimated to test for impairment.

For unquoted investments carried at cost, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

In making this judgment, the Bank evaluates among other factors, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

Fair value of unquoted equity securities

The Group determines the fair value of unquoted investments by using valuation techniques. This includes using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis or market multiples for similar instruments. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies/funds. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments.

Significant judgment is required to be made by the Group and the Board of Directors in the selection of an approach that would reflect the best measure of fair value of the investments. The choice of the models used for valuation on each reporting period may have a significant impact on the fair value of investments and the amounts reported in the consolidated financial statements. The Bank has adopted the market approach for valuation of its unquoted equity security.

The potential effect of using reasonable possible alternative assumptions for valuing the investments resulting in 5% decrease/increase in the market multiple would increase/decrease the reported fair value by BD 734 thousand (31 December 2014: BD 761 thousand). The corresponding impact would be on the profit or loss reported by the Group.

Impairment of financing assets

Financing assets are evaluated for impairment on a basis described in accounting policy, refer to note 2 (l). Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying assets/ collaterals. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department.

24 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Impairment of financing assets (continued)

For evaluation of the portfolio for impairment on a collective basis, management, where available, uses estimates based on historical loss experience for assets and loss experience in the industry for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio. For the purposes of a collective evaluation of impairment, financing assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The methodology and assumptions used for the grading process and estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In view of the management, the current level of provisioning is adequate and no additional impairment allowances are required on a collective basis.

Estimation of net realisable value of development property

Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property. These estimates involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the development property.

25. ASSETS UNDER MANAGEMENT

The Bank provides corporate administration, investment management and advisory services to its investment entities, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of BD 255.21 million (31 December 2014: BD 261.77 million). During the year, the Bank has charged management fees amounting to Nil (2014: BD 738 thousand) for the management of these assets.

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26. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the parent company, other significant shareholders and entities over which the Bank and the shareholders exercises significant influence, directors and executive management of the Bank.

A significant portion of the Bank's income from management fees arises from entities (assets under management) over which the Bank or its significant shareholders exercises influence. Although these entities are considered related parties, the Bank administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were:

Categories*	Number of Shares	Number of Directors
Less than 1%	7,371,806	4
1% up to 10%	-	-

** Expressed as a percentage of total outstanding shares of the Bank.*

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

The key management personnel compensation during the year is as follows:

	2015	2014
Board member fees	60	81
Board member allowances	120	120
Salaries and other short-term benefits	603	868

Transactions with restricted investment accounts
Transactions involving transfer/sale of assets to restricted investment accounts are generally executed based on the pre-agreed values as per the terms of the contracts for each restricted investment product. During 2015, in its normal course of business, the Bank has bought certain investments at agreed contractual values amounting to BD 4,372 thousands.

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26 RELATED PARTY TRANSACTIONS (continued)

The related party balances and transactions (except for compensation of key managerial personnel) included in these consolidated financial statements are as follows:

31 December 2015	**Associates**	**Key management personnel**	**Parent company / other significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Assets					
Financing assets	334	-	-	-	334
Investment in equity securities	-	-	2,284	23,845	26,129
Investment in associates	2,605	-	-	-	2,605
Other assets	117	-	-	2,494	2,611
Liabilities					
Customers' current accounts	222	-	9,971	7,800	17,993
Equity of investment account holders	110	-	19,943	8,409	28,462

31 December 2014	Associates	Key management personnel	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	646	-	-	-	646
Investment in equity securities	-	-	2,284	24,929	27,213
Investment in associates	2,604	-	-	-	2,604
Other assets	100	-	-	2,084	2,184
Liabilities					
Customers' current accounts	148	-	43	1,456	1,647
Equity of investment account holders	457	349	5,671	10,394	16,871

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26 RELATED PARTY TRANSACTIONS (continued)

2015	**Associates**	**Key management personnel**	**Parent company / other significant shareholders / entities in which directors are interested**	**Assets under management (including special purpose entities)**	**Total**
Income					
Income from financing assets and assets acquired for leasing	39	-	-	-	39
Income from equity securities	-	-	-	367	367
Share of profit from associates	1	-	-	-	1
Expenses					
Return to investment account holders	2	-	520	131	653
Staff cost	-	603	-	-	603
Other expenses	-	-	-	110	110

2014	Associates	Key management personnel	Parent company / other significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Management fees	-	-	-	705	705
Income from financing assets and assets acquired for leasing	102	-	-	-	102
Income from equity securities	-	-	162	(198)	(36)
Share of profit from associates	27	-	-	-	27
Expenses					
Return to investment account holders	18	8	40	257	323
Staff cost	-	868	-	-	868
Other expenses	-	-	-	123	123

27. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit/ (loss) for the year by the weighted average number of equity shares outstanding during the year adjusted for impact arising from shares issued under the employee share incentive scheme.

Basic EPS	**2015**	2014 (restated)
Profit attributable to parent for the year (BD 000's)	7,014	3,093
Weighted average number of equity shares (Nos. in 000's)	961,461	968,507
Basic earnings per share (in fils)	7.30	3.19

The Bank does not have any dilutive instruments as of 31 December 2015.

28. SHARI'A SUPERVISORY BOARD

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

29. ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investment account holders. The Bank currently does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. During the year, the Shari'a Supervisory Board has computed Zakah payable of BD 100 thousand (2014: BD 766 thousand) of which Nil (2014: Nil) represents the Zakah computed on the cumulative retained earnings as at 31 December 2015, payable by the Bank. The remaining Zakah balance amounting to BD 100 thousand or 0.100 fils per share (2014: BD 766 thousand or 0.664 fils per share) is due and payable by the shareholders. The Bank will pay Zakah of BD 7 thousand (2014: BD 19 thousand) on the treasury shares held as of 31 December 2015 based on 0.1 fils per share (Note 35).

30. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker (Board of Directors) to make decisions about resource allocation to each segment and assess its performance and for which discrete financial information is available. An operating segment is divided into business segment and geographic segments. For management purposes, the Group is organised into two major business segments:

Corporate and retail banking

Providing customer services such as accepting Mudaraba deposits, savings account and current account facilities, fund transfer facilities, bill payment facilities. It also provides financing facilities (in the form of Commodity Murabaha, Musharaka, Istisna'a and Ijarah facilities) to corporate clients and High-Networth-Individuals and consumer finance products. Provides money market and treasury services in the form of short term Commodity Murabaha and Wakala to banks, financial institutions and corporate, investments in sukuk and also used to manage funding of the Group

Investment banking

Primarily relates to conceptualising of investment deals and performing roles of an arranger, lead manager, and administrator of the funds (involves structuring of deals, raising of funds through private placement and fund administration). Also offers products like Restricted Investment Accounts (RIA) and management of funds raised through the RIA structures. Also involves carrying out strategic investments in the form of equity contribution (either in the funds created and managed by the Bank or other institutions).

Segment performance is measured based on results for each department as mentioned in the internal management reports that are reviewed by the Board of directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate in these industries.

The Bank reports directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment cost respectively. Indirect costs and corporate overheads are treated as unallocated. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures.

The Group primarily operates from Bahrain and does not have any overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 32 (b) to the consolidated financial statements.

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30 SEGMENT REPORTING (continued)

These segments are the basis on which the Group reports its primary segment information. Transactions between segments (if any) are conducted on an arm's length basis

31 December 2015	**Investment Banking**	**Corporate and Retail Banking**	**Unallocated**	**Total**
Cash and bank balances	2	41,284	-	**41,286**
Placements with financial institutions	7,440	36,513	-	**43,953**
Financing assets	(6,397)	325,111	-	**318,714**
Investment in Sukuk	-	63,533		**63,533**
Assets acquired for leasing (including lease rentals receivable)	-	69,100	-	**69,100**
Investment in equity securities	67,801	-	-	**67,801**
Investment in associates	2,605	-	-	**2,605**
Investment property	19,071	-	-	**19,071**
Development property	6,952	-	-	**6,952**
Other assets	9,227	2,495	953	**12,675**
Property and equipment	-	-	8,285	**8,285**
Total segment assets	**106,701**	**538,036**	**9,238**	**653,975**
Placements from financial institutions	-	47,007	-	**47,007**
Placements from non- financial institutions and individuals	-	48,311	-	**48,311**
Customers' current accounts	7,440	58,408	-	**65,848**
Other liabilities	1,793	5,614	2,430	**9,837**
Total segment liabilities	**9,233**	**159,340**	**2,430**	**171,003**
Equity of investment account holders	**8,519**	**362,752**	**-**	**371,271**
Restricted investment accounts	**21,534**	**-**	**-**	**21,534**

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30 SEGMENT REPORTING (continued)

2015	**Investment Banking**	**Corporate and Retail Banking**	**Unallocated**	**Total**
Income from placements with financial institutions	96	470	-	**566**
Income from financing assets and assets acquired for leasing	(335)	21,782	-	**21,447**
Income from Sukuk	-	3,682	-	**3,682**
Income from investment securities	878	-	-	**878**
Share of Income from associate companies	1	-	-	**1**
Other income	2,203	2,201	-	**4,404**
Total income before return to investment account holders	**2,843**	**28,135**	**-**	**30,978**
Less: Return to investment account holders before Bank's share as Mudarib	(527)	(16,406)	-	**(16,933)**
Bank's share as a Mudarib	298	9,253	-	**9,551**
Return to investment account holders	**(229)**	**(7,153)**	**-**	**(7,382)**
Less: Expense on placements from financial institutions, non-financial institutions and individuals	(64)	(2,228)		**(2,292)**
Total segment revenue	**2,550**	**18,754**	**-**	**21,304**
Staff cost	573	2,290	2,863	**5,726**
Depreciation	-	-	482	**482**
Other expenses	183	1,216	3,204	**4,603**
Total segment cost	**756**	**3,506**	**6,549**	**10,811**
Segment results before impairment allowances	**1,794**	**15,248**	**(6,549)**	**10,493**
Charge of impairment allowances	(1,029)	(1,443)	-	**(2,472)**
Segment results	**765**	**13,805**	**(6,549)**	**8,021**

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30 *SEGMENT REPORTING (continued)*

31 December 2014	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Cash and bank balances	2	37,358	-	37,360
Placements with financial institutions	1,318	74,688	-	76,006
Financing assets	(8,188)	303,943	-	295,755
Investment in Sukuk	-	35,978	-	35,978
Assets acquired for leasing (including lease rentals receivable)	-	43,779	-	43,779
Investment in equity securities	60,945	-	-	60,945
Investment in associates	2,604	-	-	2,604
Investment property	18,987	-	-	18,987
Development properties	7,893	-	-	7,893
Other assets	7,140	736	948	8,824
Property and equipment	-	-	8,517	8,517
Total segment assets	90,701	496,482	9,465	596,648
Placements from financial institutions	-	50,208	-	50,208
Placements from non- financial institutions and individuals	-	43,782	-	43,782
Customers' current accounts	1,318	46,400	-	47,718
Other liabilities	2,091	5,120	2,900	10,111
Total segment liabilities	3,409	145,510	2,900	151,819
Equity of investment account holders	10,855	328,079	-	338,934
Restricted investment accounts	21,966	-	-	21,966

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30 SEGMENT REPORTING (continued)

2014	Investment Banking	Corporate and Retail Banking	Unallocated	Total
Management fees	738	-	-	738
Income from placements with financial institutions	10	558	-	568
Income from financing assets and assets acquired for leasing	(458)	21,815	-	21,357
Income from Sukuk		1,317		1,317
Income from investment securities	100	-	-	100
Share of Income from associate companies	27	-	-	27
Other income	1,689	1,475	-	3,164
Total income before return to investment account holders	2,106	25,165	-	27,271
Less: Return to investment account holders before Bank's share as Mudarib	(388)	(12,455)	-	(12,843)
Bank's share as a Mudarib	121	3,881	-	4,002
Return to investment account holders	(267)	(8,574)	-	(8,841)
Less: Expense on placements from financial institutions, non-financial institutions and individuals	(88)	(2,971)	-	(3,059)
Total segment revenue	1,751	13,620	-	15,371
Staff cost	618	2,473	3,092	6,183
Depreciation	-	-	627	627
Other expenses	142	994	3,121	4,257
Total segment cost	760	3,467	6,840	11,067
Segment results before impairment allowances	991	10,153	(6,840)	4,304
Charge of impairment allowances	(432)	8	(57)	(481)
Segment results	559	10,161	(6,897)	3,823

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31. MATURITY PROFILE

The maturity profile of placements with and from financial institutions, financing assets, assets acquired for leasing, (including lease rental receivable), investment in sukuk (non-trading), and equity of investment account holders has been presented using their contractual maturity period. For other balances, maturity profile is based on expected cash flows/ settlement profile of the respective assets and liabilities.

31 December 2015	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	41,286	-	-	-	-	**41,286**
Placements with financial institutions	43,793	-	160	-	-	**43,953**
Financing assets	46,713	16,938	34,316	77,869	142,878	**318,714**
Investment in Sukuk	63,533	-	-	-	-	**63,533**
Assets acquired for leasing (including lease rental receivable)	533	-	-	472	68,095	**69,100**
Investment in equity securities	-	-	-	67,801	-	**67,801**
Investment in associates	933	-	-	-	1,672	**2,605**
Investment property	-	-	-	-	19,071	**19,071**
Development property	-	-	-	-	6,952	**6,952**
Other assets	1,528	-	231	10,916	-	**12,675**
Property and equipment	-	-	-	-	8,285	**8,285**
Total assets	**198,319**	**16,938**	**34,707**	**157,058**	**246,953**	**653,975**
Liabilities						
Placements from financial institutions	30,510	1,525	-	14,972	-	**47,007**
Placements from non-financial institutions and individuals	14,210	8,368	22,636	1,504	1,593	**48,311**
Customers' current account	41,167	11,026	5,075	2,973	5,607	**65,848**
Other liabilities	2,335	856	1,232	5,414	-	**9,837**
Total liabilities	**88,222**	**21,775**	**28,943**	**24,863**	**7,200**	**171,003**
Equity of investment account holders	151,165	35,273	47,774	26,517	110,542	371,271
Restricted investment accounts	8,500	-	993	12,041	-	**21,534**
Commitments	24,790	22,239	26,735	6,099	1,115	**80,978**

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31 MATURITY PROFILE (continued)

31 December 2014	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	37,360	-	-	-	-	37,360
Placements with financial institutions	76,006	-	-	-	-	76,006
Financing assets	52,664	23,199	20,336	65,656	133,900	295,755
Investment in Sukuk	35,978	-	-	-	-	35,978
Assets acquired for leasing (including lease rental receivable)	-	-	531	829	42,419	43,779
Investment in equity securities	-	-	3,770	57,175	-	60,945
Investment in associates	-	-	-	938	1,666	2,604
Investment property	-	-	-	-	18,987	18,987
Development property	-	-	-	-	7,893	7,893
Other assets	1,633	-	42	7,149	-	8,824
Property and equipment	-	-	-	-	8,517	8,517
Total assets	203,641	23,199	24,679	131,747	213,382	596,648
Liabilities						
Placements from financial institutions	30,326	-	3,054	16,828	-	50,208
Placements from non-financial institutions and individuals	22,567	5,056	9,156	5,830	1,173	43,782
Customers' current account	37,426	3,812	3,240	3,240	-	47,718
Other liabilities	3,137	809	1,420	4,745	-	10,111
Total liabilities	93,456	9,677	16,870	30,643	1,173	151,819
Equity of investment account holders	129,488	49,705	55,610	104,131	-	338,934
Restricted investment accounts	-	-	-	5,553	16,413	21,966
Commitments	25,961	4,736	17,772	6,300	1,231	56,000

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32. CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS

(a) Industry sector

31 December 2015	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	41,286	-	-	**41,286**
Placements with financial institutions	43,953	-	-	**43,953**
Financing assets	27,708	87,964	203,042	**318,714**
Investment in sukuk	1,889	1,640	60,004	**63,533**
Assets acquired for leasing (including lease rentals receivable)	-	68,093	1,007	**69,100**
Investment in equity securities	22,471	37,892	7,438	**67,801**
Investment in associates	-	2,605	-	**2,605**
Investment property	-	19,071	-	**19,071**
Development property	-	6,952	-	**6,952**
Other assets	1,261	2,510	8,904	**12,675**
Property and equipment	-	6,722	1,563	**8,285**
Total assets	**138,568**	**233,449**	**281,958**	**653,975**
Liabilities				
Placements from financial institutions	47,007	-	-	**47,007**
Placements from non-financial institutions and individuals	-	682	47,629	**48,311**
Customers' current accounts	5,322	14,075	46,451	**65,848**
Other liabilities	-	2,039	7,798	**9,837**
Total liabilities	**52,329**	**16,796**	**101,878**	**171,003**
Equity of investment account holders	**940**	**26,091**	**344,240**	**371,271**
Restricted investment accounts	-	20,541	993	**21,534**
Commitments	608	20,943	59,427	**80,978**

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32 CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(a) Industry sector (continued)

31 December 2014	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	37,360	-	-	37,360
Placements with financial institutions	76,006	-	-	76,006
Financing assets	41,285	105,247	149,223	295,755
Investment in sukuk	7,508	4,618	23,852	35,978
Assets acquired for leasing (including lease rentals receivable)	501	43,211	67	43,779
Investments in equity securities	19,031	34,226	7,688	60,945
Investment in associates	-	2,604	-	2,604
Investment property	-	18,987	-	18,987
Development property	-	7,893	-	7,893
Other assets	-	2,218	6,606	8,824
Property and equipment	-	7,169	1,348	8,517
Total assets	181,691	226,173	188,784	596,648
Liabilities				
Placements from financial institutions	50,208	-	-	50,208
Placements from non-financial institutions and individuals	-	379	43,403	43,782
Customers' current accounts	2,800	7,401	37,517	47,718
Other liabilities	-	2,237	7,874	10,111
Total liabilities	53,008	10,017	88,794	151,819
Equity of investment account holders	9,014	14,864	315,056	338,934
Restricted investment accounts	-	20,973	993	21,966
Commitments	-	16,041	39,959	56,000

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32 CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic sector

31 December 2015	GCC countries	Europe	America	Asia	Australia	Africa	Total
Assets							
Cash and bank balances	33,825	1,495	5,928	38	-	-	41,286
Placements with financial institutions	43,953	-	-	-	-	-	43,953
Financing assets	299,006	19,708	-	-	-	-	318,714
Investment in sukuk	63,533	-	-	-	-	-	63,533
Assets acquired for leasing (including lease rentals receivable)	69,100	-	-	-	-	-	69,100
Investment in equity securities	43,754	-	-	20,379	3,668	-	67,801
Investment in associates	2,605	-	-	-	-	-	2,605
Investment property	19,071	-	-	-	-	-	19,071
Development property	6,952	-	-	-	-	-	6,952
Other assets	11,180	900	-	595	-	-	12,675
Property and equipment	8,285	-	-	-	-	-	8,285
Total assets	601,264	22,103	5,928	21,012	3,668	-	653,975
Liabilities							
Placements from financial institutions	47,007	-	-	-	-	-	47,007
Placements from non-financial institutions and individuals	48,311	-	-	-	-	-	48,311
Customers' current accounts	65,419	348	-	81	-	-	65,848
Other liabilities	9,837	-	-	-	-	-	9,837
Total liabilities	170,574	348	-	81	-	-	171,003
Equity of investment account holders	359,028	488	-	11,747	-	8	371,271
Restricted investment accounts	20,541	-	-	-	993	-	21,534
Commitments	80,731	247	-	-	-	-	80,978

Concentration by location for financing assets is measured based on the location of the counterparty, which has a high correlation with the location of the collateral for the exposure.

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32 CONCENTRATION OF ASSETS, LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND RESTRICTED INVESTMENT ACCOUNTS (continued)

(b) Geographic sector (continued)

31 December 2014	GCC countries	Europe	America	Asia	Australia	Africa	Total
Assets							
Cash and bank balances	33,833	1,256	2,251	20	-	-	37,360
Placements with financial institutions	76,006	-	-	-	-	-	76,006
Financing assets	271,911	23,158	-	686	-	-	295,755
Investment in sukuk	34,734	-	-	1,244	-	-	35,978
Assets acquired for leasing (including lease rentals receivable)	43,779	-	-	-	-	-	43,779
Investment in equity securities	36,447			20,580	3,918	-	60,945
Investment in associates	2,604	-	-	-	-	-	2,604
Investment property	18,987	-	-	-	-	-	18,987
Development property	7,893	-	-	-	-	-	7,893
Other assets	7,409	910	-	505	-	-	8,824
Property and equipment	8,517	-	-	-	-	-	8,517
Total assets	542,120	25,324	2,251	23,035	3,918	-	596,648
Liabilities							
Placements from financial institutions	50,208	-	-	-	-	-	50,208
Placements from non-financial institutions and individuals	43,782	-	-	-	-	-	43,782
Customers' current accounts	46,707	904	-	107	-	-	47,718
Other liabilities	10,111	-	-	-	-	-	10,111
Total liabilities	150,808	904	-	107	-	-	151,819
Equity of investment account holders	330,113	460	4	8,357	-	-	338,934
Restricted investment accounts	20,973	-	-	-	993	-	21,966
Commitments	55,988	12	-	-	-	-	56,000

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33. FAIR VALUE

a) Fair value of financial instruments

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

The fair values of quoted Sukuk carried at amortised cost of BD 9,698 thousand (31 December 2014: BD 21,273 thousand) amounts to BD 9,428 thousand as at 31 December 2015 (31 December 2014: BD 20,889 thousand).

In case of financing assets and lease receivables, the average profit rate of the portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the current value would not be materially different to fair value of these assets. Other than equity investments carried at cost of BD 49,099 thousand (2014: BD 45,797 thousand), the estimated fair values of the Bank's other financial instruments are not significantly different from their carrying values due to their short-term nature.

b) Fair value hierarchy

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

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

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities				
Equity type instruments carried at fair value through income statement	-	-	15,148	15,148
Equity type instruments carried at fair value through equity	3,554	-	-	3,554
	3,554	**-**	**15,148**	**18,702**

31 December 2014	Level 1	Level 2	Level 3	Total
Investment securities				
Equity type instruments carried at fair value through income statement	4,961	-	15,148	20,109
Debt type instruments carried at fair value through income statement	398	-	-	398
	5,359	-	15,148	20,507

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33 FAIR VALUE (continued)

b) Fair value hierarchy (continued)

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2015	2014
At 1 January	15,148	14,959
Total gains or losses		
- In profit or loss	-	-
Purchases	-	189
At 31 December	**15,148**	15,148

34. RISK MANAGEMENT

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risks
- operational risks

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established an Executive Risk Management Committee, which is responsible for developing and monitoring the Bank's risk management policies in the specified areas. The committee also continuously monitors consistent implementation of the Board approved policies in the Bank and reports deviations, if any, to the Board. The committee consists of heads of business and other functional units in the Bank and reports regularly to the Board Audit and Risk Management Committee.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Audit and Risk Management Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Management Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

34 RISK MANAGEMENT (continued)

CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's exposures to placements with financial institutions, financing assets, outstanding assets acquired for leasing, investment in sukuk and receivables classified under other assets. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual and group exposure risk, country and sector concentration risk, related party exposure, etc.).

The Bank monitors the total exposure to assets acquired for leasing (including lease rentals receivable) on a cumulative basis for monitoring of market risk and credit risk.

The Board of Directors has delegated responsibility for the management of credit risk to its Executive Risk Management Committee (ERMC). A separate Risk Management and Credit Management Department (RMD), reporting to the ERMC is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements and submitting the same for approval to the Board of Directors.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are not at present allocated to business units. Smaller exposures are approved by the Executive Credit & Investment Committee. Larger facilities require approval by the Chief Executive Officer, Board Investment and Credit Committee or the full Board, as the case may be.
- Reviewing and assessing credit risk. RMD assesses all credit exposures and signs off on the relevant proposals prior to approval of the facilities by the appropriate authorities. Renewal and review of facilities are subject to the same process.
- Limiting concentrations of exposure to counterparties, countries and industries in respect of financing assets, assets acquired for leasing as well as investments.
- Developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of probable risk of financial loss to focus management on the attendant risks. The risk grading system is also used to identify specific exposures for which impairment provisions may be required. The risk grading framework for the Bank's financing portfolio consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate on the recommendations of the RMD. Risk grades are subject to regular reviews by RMD.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are submitted to the Board on the compliance levels. RMD also provides advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.
- Each business unit is required to implement the Bank credit policies and procedures in respect of exposures assumed by them and are responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, irrespective of the approving authority for the exposure. Regular audits of business units and Bank credit processes are undertaken by Internal Audit.

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34 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposure to credit risk

31 December 2015	**Placements with financial institutions**	**Financing assets**	**Assets acquired for leasing (including lease rental receivable)**	**Investment In Sukuk**	**Other financial assets**	**Total**
Impaired						
Grade 9:						
Impaired	-	14,995	209	2,001	-	17,205
Unrated	-	-	-	-	7,606	7,606
Allowance for impairment	-	(10,284)	(25)	(431)	(1,677)	(12,417)
Carrying amount	-	4,711	184	1,570	5,929	12,394
Past due but not impaired						
Grade 1-6						
Low-Fair Risk	-	24,282	7,527	-	-	31,809
Grade 7-8						
Watch list	-	28,884	65	-	-	28,949
Past due comprises:						
Up to 30 days	-	9,701	3,414	-	-	13,115
30-60 days	-	11,027	1,400	-	-	12,427
60-90 days	-	8,666	1,400	-	-	10,066
90-180days	-	7,067	859	-	-	7,926
180 days +	-	16,705	519	-	-	17,224
Carrying amount	-	53,166	7,592	-	-	60,758
Neither past due nor impaired						
Grade 1-6						
Low-Fair Risk	43,953	260,479	61,788	61,963	-	428,183
Grade 7,8:						
Watch list	-	3,842	234	-	-	4,076
Unrated	-	-	-	-	6,746	6,746
Carrying amount	43,953	264,321	62,022	61,963	6,746	439,005
Less: **Collective impairment provisions**	-	(3,484)	(698)	-	-	(4,182)
Total	**43,953**	**318,714**	**69,100**	**63,533**	**12,675**	**507,975**

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34 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposure to credit risk (continued)

31 December 2014	Placements with financial institutions	Financing assets	Assets acquired for leasing (including lease rental receivable)	Investment securities-Sukuk	Other financial assets	Total
Impaired						
Grade 9:						
Impaired	-	16,526	-	2,001	-	18,527
Unrated	-	-	-	-	7,617	7,617
Allowance for impairment	-	(10,192)	-	(300)	(1,677)	(12,169)
Carrying amount	-	6,334	-	1,701	5,940	13,975
Past due but not impaired						
Grade 1-6						
Low-Fair Risk	-	19,878	7,920	-	-	27,798
Grade 7-8						
Watch list	-	7,434	553	-	-	7,987
Past due comprises:						
Up to 30 days	-	11,749	4,172	-	-	15,921
30-60 days	-	2,504	2,529	-	-	5,033
60-90 days	-	11,761	968	-	-	12,729
90-180days	-	512	499	-	-	1,011
180 days +	-	786	305	-	-	1,091
Carrying amount	-	27,312	8,473	-	-	35,785
Neither past due nor impaired						
Grade 1-6						
Low-Fair Risk	76,006	253,212	35,748	34,277	-	399,243
Grade 7,8:						
Watch list	-	12,374	-	-	-	12,374
Unrated	-	-	-	-	2,884	2,884
Carrying amount	76,006	265,586	35,748	34,277	2,884	414,501
Less: Collective impairment provisions	-	(3,477)	(442)	-	-	(3,919)
Total	76,006	295,755	43,779	35,978	8,824	460,342

34 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Impaired financial assets

Impaired financial assets are those for which the Bank determines that it is probable that it will be unable to collect all or part of the principal and profit due according to the contractual terms of the exposure. Generally these assets fall under risk grades 9 or 10, for other financial assets impairment is assessed on an individual basis for each exposure under the Bank's internal credit risk grading system.

Past due but not impaired exposures

The exposure pertains to financing assets where contractual profit or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of subsequent collections, the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Renegotiated facilities

Exposures classified as neither past due nor impaired financing facilities include facilities renegotiated during the year amounting to BD 49,276 thousand (2014: BD 32,910 thousand) that would otherwise be past due as per their original repayment terms. The renegotiated terms usually require settlement of profits accrued till date on the facility and/or part payment of the principal and/or obtaining of additional collateral coverage. The renegotiated facilities are subject to revised credit assessments and independent review by the RMD. Of the total past due facilities of BD 60,758 thousand (2014: BD 35,785 thousand) only instalments of BD 30,204 thousand (2014: BD 14,108 thousand) are past due as at 31 December 2015.

Allowances for impairment

The Bank makes provisions for impairment on individual assets classified under grades 9 and 10. This is done on the basis of the present value of projected future cash flows from the assets themselves and consideration of the value of the collateral securities available. On a collective basis, the Bank has provided for impairment losses based on management's judgment of the extent of losses incurred but not identified based on the current economic and credit conditions.

Write-off policy

The Bank writes off an asset/security balance (net of any related allowances for impairment losses) when it determines that the asset/security are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that he can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the year, the Bank has written off a financing facility amounting to BD 933 thousand (2014: BD 2,466 thousand) which was fully provided.

Collaterals

The Bank holds collateral against financing assets and receivables from assets acquired for leasing in the form of mortgage/ pledge over property, listed/ unlisted securities, other assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and updated periodically, generally at annual intervals. Collateral generally is not held against exposure to other banks and financial institutions. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below. This includes the value of financial guarantees from banks, but not corporate and personal guarantees as the values thereof are not readily quantifiable. The collateral values considered for disclosure are restricted to the extent of the outstanding exposures.

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34 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Collaterals (continued)

	As at 31 December 2015			As at 31 December 2014		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Against impaired						
Property	3,540	190	**3,730**	4,951	-	4,951
Equities	-	-	**-**	-	-	-
Other	463	-	**463**	-	-	-
Against past due but not impaired						
Property	29,899	8,844	**38,743**	11,740	7,426	19,166
Equities	-	-	**-**	1,899	-	1,899
Other	4,706	-	**4,706**	5,586	-	5,586
Against neither past due nor impaired						
Property	74,342	61,056	**135,398**	79,873	37,207	117,080
Equities	298	-	**298**	6,695	-	6,695
Other	40,258	-	**40,258**	49,352	-	49,352
Total	**153,506**	**70,090**	**223,596**	160,096	44,633	204,729

The average collateral coverage ratio on secured facilities is 107.80% at 31 December 2015 (31 December 2014: 109.49%)

For analysis of concentration of total assets and liabilities refer note 32.

Further, for financing assets and assets acquired for leasing the Bank monitors concentrations of credit risk by sector and by geographic location.

34 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

An analysis of concentrations of credit risk at the reporting date is shown below:

Concentration by Sector	**As at 31 December 2015**			As at 31 December 2014		
	Financing assets	**Assets acquired for leasing (including lease rentals receivable)**	**Total**	Financing assets	Assets acquired for leasing (including lease rentals receivable)	Total
Banking and finance	27,708	-	**27,708**	41,283	501	41,784
Real estate:						
- Property	6,474	68,118	**74,592**	38,341	43,278	81,619
- Infrastructure Development	19,690	-	**19,690**	4,162	-	4,162
- Land	23,558	-	**23,558**	10,639	-	10,639
Construction	37,334	-	**37,334**	37,012	-	37,012
Trading	112,455	-	**112,455**	87,928	-	87,928
Manufacturing	13,446	-	**13,446**	16,399	-	16,399
Others	78,049	982	**79,031**	59,991	-	59,991
Total carrying amount	**318,714**	**69,100**	**387,814**	295,755	43,779	339,534

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from RMD.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Financial Control Department (FCD) collates data from treasury and other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. FCD communicates the information to the treasury who manages the Bank's portfolio of short-term liquid assets, largely made up of short-term placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

34 RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

Management of liquidity risk (continued)
The daily liquidity position is monitored by FCD. The Bank has in place a Liquidity Contingency Plan, the elements of which are periodically tested. Tools for implementation of regular stress testing under various scenarios are in place. All liquidity policies and procedures are subject to review by ALCO and approval by appropriate authorities. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO members.

Exposure to liquidity risk
The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For computation of this, net liquid assets are considered as including cash and bank balances and placements with financial Institutions and investments in sukuk *less* placements from financial institution, and deposits comprise current accounts, placements from non-financial institutions and individuals, and equity of investment account holders.

Details of the reported Bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	2015 **%**	2014 %
At 31 December	20.95	23.03
Average for the period	26.86	28.49
Maximum for the period	32.30	34.79
Minimum for the period	20.95	23.03

For maturity profile of assets and liabilities refer note 31.

MARKET RISK
Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income, future cash flows or the value of its holdings of financial instruments. Market risk comprises three types of risk: currency risk, profit rate risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks
The Bank separates its exposure to market risk between trading and non-trading portfolios. The Bank has no trading positions in equity or commodities and the main source of market risk for the Bank is its foreign exchange exposure and profit rate gap.

The Bank does not do any trading in foreign exchange. The Bank does not engage in proprietary trading of foreign exchange derivatives. However, the Bank enters into Shari'a compliant foreign exchange risk management transactions to hedge economic risks to cover significant open positions under its risk management guidelines. All foreign exchange income/ losses arising out of customer transactions and revaluation of statement of financial position assets and liabilities are booked by the treasury operations. The responsibility for monitoring and managing the related risks also rests with the Treasury department.

Overall authority for market risk management is vested with ALCO. The RMD is responsible for the development of detailed risk management policies (subject to review and approval by appropriate approval authorities) and the Financial Control Department is responsible for the day-to-day review of their implementation.

for the year ended 31 December 2015 BD 000's

34 RISK MANAGEMENT (continued)

MARKET RISK (continued)

Exposure to profit rate risk–non–trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Bank's Risk Management Department in its day-to-day monitoring activities.

A summary of the Bank's profit rate gap position at 31 December 2015 is as follows:

31 December 2015	**Up to 3 months**	**3 - 6 months**	**6 months - 1 year**	**1 - 3 years**	**More than 3 years**	**Total**
Assets						
Placements with financial institutions	43,793	-	160	-	-	**43,953**
Financing assets	46,713	16,938	34,316	77,869	142,878	**318,714**
Assets acquired for leasing (including lease rentals receivable)	533	-	-	472	68,095	**69,100**
Investments securities (sukuk)	63,533	-	-	-	-	**63,533**
Total profit rate sensitive assets	**154,572**	**16,938**	**34,476**	**78,341**	**210,973**	**495,300**
Liabilities and investment accounts						
Placements from financial institutions	30,510	1,525	-	14,972	-	**47,007**
Placements from non-financial institutions and individuals	14,210	8,368	22,636	1,504	1,593	**48,311**
Customers' current accounts	7,694	-	-	-	-	**7,694**
Equity of investments account holders	151,165	35,273	47,774	26,517	110,542	**371,271**
Total profit rate sensitive liabilities and investment accounts	**203,579**	**45,166**	**70,410**	**42,993**	**112,135**	**474,283**
Profit rate gap	**(49,007)**	**(28,228)**	**(35,934)**	**35,348**	**98,838**	**21,017**

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34 RISK MANAGEMENT (continued)

MARKET RISK (continued)

31 December 2014	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	76,006	-	-	-	-	76,006
Financing assets	52,664	23,199	20,336	65,656	133,900	295,755
Assets acquired for leasing (including lease rentals receivable)	-	-	531	829	42,419	43,779
Investments securities (sukuk)	35,978	-	-	-	-	35,978
Total profit rate sensitive assets	164,648	23,199	20,867	66,485	176,319	451,518
Liabilities and investment accounts						
Placements from financial institutions	30,326	-	3,054	16,828	-	50,208
Placements from non-financial institutions and individuals	22,567	5,056	9,156	5,830	1,173	43,782
Customers' current accounts	1,429	-	-	-	-	1,429
Equity of investments account holders	129,488	49,705	55,610	104,131	-	338,934
Total profit rate sensitive liabilities and investment accounts	183,810	54,761	67,820	126,789	1,173	434,353
Profit rate gap	(19,162)	(31,562)	(46,953)	(60,304)	175,146	17,165

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise across all yield curves and a 50 bp rise or fall of all yield curves.

An analysis of the Bank's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position position) is as follows:

	100bp parallel increase/ decrease	**50bp increase/ decrease**
At 31 December 2015	±210	±105
At 31 December 2014	±172	±86

Overall non-trading profit rate risk positions are managed by Treasury department, which uses short term investment securities, placement with banks and placement from banks to manage the overall position arising from the Bank's non-trading activities.

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34 RISK MANAGEMENT (continued)

MARKET RISK (continued)

Exposure to foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group had the following significant net exposures denominated in foreign currency as of 31 December.

	2015 BHD Equivalent	2014 BHD Equivalent
US Dollars*	34,563	115,278
Other GCC Currencies *	14,578	16,676
Euros	4,761	5,030
Australian Dollars	4,608	4,608
Kuwaiti Dinars	4,297	3,261
Sterling Pounds	2,064	1,493
Indian Rupee	38	18

(*) The exposure in US dollars and other GCC currencies does not create any foreign exchange risk for the Bank since Bahrain Dinars and other GCC currencies are effectively pegged to the US Dollars.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered on a monthly basis include a 5% plus/minus increase in exchange rates, for currencies other than US Dollars, other GCC currencies.

An analysis of the Bank's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2015 BHD Equivalent	2014 BHD Equivalent
Euros	±238	±251
Australian Dollars	±230	±230
Kuwaiti Dinars	±215	±163
Sterling Pounds	±103	±75
Indian Rupees	±2	±1

Exposure to other price risks–non–trading portfolios

Credit spread risk on debt securities is subject to regular monitoring by RMD, but is not currently significant in relation to the overall financial position of the Bank.

The Group's unquoted equity securities carried at cost are exposed to risk of changes in equity values. Refer to note 24 for significant estimates and judgments in relation to impairment assessment of unquoted equity investments carried at cost. The Group manages exposure to other price risks by actively monitoring the performance of the equity securities. The performance assessment is performed on a quarterly basis and is reported to the Board Investment and Credit Committee.

34 RISK MANAGEMENT (continued)

MARKET RISK (continued)

OPERATIONAL RISK

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department is in charge of identifying, monitoring and managing operational risk in the bank. The Bank already has an approved policy for doing this and all required organisational and physical infrastructure are in place.

The Bank has completed conducting one cycle of Risk Control Self-Assessment (RCSA) of Operational risk for majority of the departments of the Bank to identify the important Key Risk Areas, Key Risk Indicators and Key Risk Triggers: Furthermore for the remaining departments Key Risk Areas have been identified and the next process will be the identification of Key Risk Indicators and Key Risk Triggers. The RCSA process is a continuous process and will be conducted at regular frequencies across the Bank. It will be an annual process to review all the KRI's. A software for monitoring these triggers and recording actual and near miss losses is already in place. The medium term objective of the Bank is to generate statistically reliable data to upgrade to more sophisticated modes of Operational Risk Control both to manage the risk better and to reduce capital commitment.

CAPITAL MANAGEMENT

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. From 1 January 2015, capital adequacy regulations of CBB is based on the principles of Basel III of the IFSB guidelines.

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

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

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

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

  The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities,

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34 RISK MANAGEMENT (continued)

CAPITAL MANAGEMENT (continued)

investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

As at 31 December the Bank has made regulatory adjustments of BD 10,229 thousand. In line with the requirements of the CBB requirements.
Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank has computed its capital adequacy ratio for the year 2014 based on Basel II guidelines, hence the figures are not comparable with the current year.

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

	31 December 2015	31 December 2014
Total risk weighted assets	**585,697**	450,894
Tier 1 capital:		
- CET 1 capital prior to regulatory adjustments	116,281	102,133
- Less: regulatory adjustments	(10,229)	-
CET 1 after regulatory adjustments	**106,052**	102,133
AT 1	-	-
Tier 2 capital:	4,188	2,997
Total regulatory capital	**110,240**	105,130
Total regulatory capital expressed as a percentage of total risk weighted assets	**18.11%**	23.32%
Liquidity coverage ratio	**96.45%**	N/A
Net stable funding ratio	**76.14%**	N/A
Leverage ratio	**22.86%**	N/A

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

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34 RISK MANAGEMENT (continued)

CAPITAL MANGEMENT (continued)

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

35. PROPOSED APPROPRIATIONS

The Board of Directors propose the appropriation for zakah of BD 7 thousand in 2015 (2014: BD 19 thousand) and dividend of 5% (BD 5 million) in the form of 50 million bonus shares which are subject to regulatory and shareholders' approval in the ensuing Annual General Meeting.

36. COMMITMENTS

The commitments contracted in the normal course of business of the Bank:

	2015	2014
Undrawn commitments to extend finance	60,994	41,098
Financial guarantees	19,984	14,902
	80,978	56,000

Performance obligations

During the ordinary course of business, the Group may enter into performance obligations in respect of certain of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2015 due to the performance of any of its projects.

37. SOCIAL RESPONSIBILITY

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

38. COMPARITIVES

Certain prior period figures have been restated on adoption of amendments to FAS 23 (refer note 2). This has also led to consequential amendments to notes and disclosures made in the consolidated financial statements.