BAHRAIN ISLAMIC BANK B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

Commercial registration	:	9900 (registered with Central Bank of Bahrain as a retail Islamic bank)
Board of directors	:	Abdul Razak Abdulla Hassan Al Qassim, *Chairman* Brig. Khalid Mohammed Al Mannai, *Vice Chariman* Khalil Ebrahim Nooruddin Fatima Abdulla Budhaish Talal Ali Al Zain Othman Ebrahim Naser Al Askar Ebrahim Hussain Ebrahim Abdul Rahman Mohammed Ahmed Al Khaja Mohamed Hedi Mejai (Resigned on 30 December 2015) Muhammad Zarrug Rajab (Appointed on 30 December 2015)
Office	:	Salam Tower, Diplomatic Area PO Box 5240 Manama, Kingdom of Bahrain Telephone 17 546-111, Telefax 17 535-808
Auditors	:	KPMG Fakhro

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2015

CONTENTS

PO Box 5240, Manama
Kingdom of Bahrain
T +973 17 546 111
F +973 17 535 808
www.bisb.com

صندوق بريد ٥٢٤٠ المنامة
مملكة البحرين
هاتف ١١١ ٥٤٦ ١٧ ٩٧٣+
فاكس ٨٠٨ ٥٣٥ ١٧ ٩٧٣+

بنك البحرين الإسلامي BisB

Sharia'a Supervisory Board report

for the year ended on 31/12/2015

In The Name of Allah, most Gracious,
most Merciful Peace and Blessings Be Upon His Messenger.

To the shareholders of Bahrain Islamic Bank B.S.C.

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

The Sharia'a Board hereby present the following report on its activities in supervising the Bank's finances and investments from a Sharia perspective for the financial year ending on 31st December 2015, in fulfillment to the mandate conferred upon it by BisB's Articles of Association:

- The Sharia'a Supervisory Board monitored the operations, related to the Bank throughout the year ended on 31st December 2015 to express opinion on the Bank's adherence to the provisions and principles of Islamic Sharia'a in its activities by following the fatwas, decisions and the specific guidelines issued from our side.
- The Sharia'a Supervisory Board believes that ensuring the conformity of Bank's activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report to you.
- We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a and Fatwas and decisions of the Sharia'a Board.
- Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Sharia'a Department in conformity with the methodology approved by the Sharia'a Board.
- The Sharia'a Internal Audit department performed its mission of auditing the transactions executed by the Bank and submitted its periodic reports to the Sharia'a Supervisory Board, which confirmed the Bank's adherence in its dealings and investments with the Sharia'a Board's fatwas and decisions.
- The 27 reports submitted by Internal Sharia Audit Department to the Sharia'a Supervisory Board included results of auditing the files, contracts, executed deals

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

in fulfillment to the Sharia'a Board annual approved audit plan. The Sharia'a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Sharia principles and Fatwas and decisions of the Sharia'a Board.

- The Sharia Board and its Committees held (11) meetings during the year and issued (95) decisions and fatwas, and approved (34) contracts.
- The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2015, the income statement, the attached notes and the Zakat calculation methods. The Sharia'a Supervisory Board believes that:

1. All the Financial Statements inspected by the Sharia'a Board conform to what has been approved by the Board, and to the standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions AAOIFI.
2. Contracts, and transactions conducted by the Bank throughout were in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.
3. The distribution of profit and allocation of losses on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board and in accordance to Islamic Sharia.
4. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'a, have been directed to the Charity and Donations Fund.
5. Zakah was calculated according to the provisions and principles of Islamic Sharia'a, by the net invested assets method. And the shareholders should pay their portion of Zakah on their shares as stated in the financial report.
6. The Bank was committed to the Sharia'a standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).

We pray that Allah may grant all of us further success and prosperity.

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

KPMG Fakhro
12th Floor
Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

CR No. 6220
Tel +973 17 224807
Fax +973 17 227443
Internet www.kpmg.com.bh

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Bahrain Islamic 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, cash flows, changes in owners' equity, sources and uses of good faith qard fund and sources and uses of zakah and charity 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 owners' equity, its consolidated sources and uses of good faith qard fund, and its consolidated sources and uses of zakah and charity 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 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 statement 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 Fakhro
Partner Registration No. 100
21 February 2016

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	2015 BD'000	2014 BD'000
ASSETS			
Cash and balances with banks and Central Bank	3	**61,114**	52,118
Placements with financial institutions	4	**73,150**	68,567
Financing assets	5	**475,648**	408,021
Investment securities	6	**130,635**	123,561
Ijarah Muntahia Bittamleek	8	**118,061**	102,277
Ijarah rental receivables	8	**15,692**	14,065
Investment in associates	7	**28,116**	30,835
Investment in real estate	10	**43,601**	53,934
Property and equipment	9	**16,640**	17,101
Other assets	11	**13,691**	4,728
TOTAL ASSETS		**976,348**	875,207
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		**93,516**	75,570
Customers' current accounts		**141,244**	137,423
Other liabilities	12	**16,616**	16,518
Total Liabilities		**251,376**	229,511
Equity of Investment Accountholders	13	**615,460**	566,601
Owners' Equity			
Share capital	14	**97,441**	93,967
Treasury shares	14	**(563)**	(563)
Shares under employee share incentive scheme		**(879)**	-
Share premium		**2,794**	-
Reserves		**10,719**	(14,320)
Equity attributable to owners of the parent		**109,512**	79,084
Non-controlling interest		**-**	11
Total Owners' Equity		**109,512**	79,095
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**976,348**	875,207

The consolidated financial statements, which consist of pages 2 to 43, were approved by the Board of Directors on 21 February 2016 and signed on its behalf by:

Abdulrazaq Al Qassim
Chairman

Khalid Al Mannai
Vice Chairman

Hassan Jarrar
Chief Executive Officer
Hassan Amin Jarrar

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2015

	Note	*2015* *BD'000*	*2014* *BD'000*
INCOME			
Income from financing	17	**33,530**	28,702
Income from investment in Sukuk		**3,659**	2,535
		37,189	31,237
Return on equity of investment accountholders		**(21,582)**	(23,379)
Group's share as Mudarib		**16,395**	16,092
Net return on equity of investment accountholders	13.4	**(5,187)**	(7,287)
Net financing income		**32,002**	23,950
Expense on placements from financial institutions		**(546)**	(252)
Fee and commission income		**7,746**	6,452
Income from investment securities	18	**739**	3,990
Income from investment in real estate	19	**1,194**	8,988
Share of results of associates, net	7	**(711)**	(1,550)
Net gain from foreign currencies		**1,223**	1,273
Other income		**72**	-
Total net income		**41,719**	42,851
EXPENSES			
Staff costs		**10,212**	11,482
Depreciation	9	**1,554**	1,641
Other expenses	20	**9,795**	8,502
Total expenses		**21,561**	21,625
Profit before impairment allowances		**20,158**	21,226
Impairment provisions on financing assets	21.1	**(5,203)**	(7,593)
Impairment provisions on investments	21.2	**(3,750)**	(4,336)
PROFIT FOR THE YEAR		**11,205**	9,297
BASIC AND DILUTED EARNINGS PER SHARE (fils)	23	**14.02**	11.76

Abdulrazaq Al Qassim
Chairman

Khalid Al Mannai
Vice Chairman

Hassan Jarrar
Chief Executive Officer
Hassan Amin Jarra

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	2015 BD'000	2014 BD'000
OPERATING ACTIVITIES			
Profit for the year		**11,205**	9,297
Adjustments for non-cash items:			
Depreciation	9	**1,554**	1,641
Impairment provisions on financing assets	21.1	**5,203**	7,593
Impairment provisions on investments	21.2	**3,750**	4,336
Impairment charge / (reversal of impairment) on investment in real estate	19	**339**	(3,617)
Gain on sale of equity type instruments carried at fair value through equity	18	**-**	(1,946)
Gain on sale of investment in real estate	19	**(1,166)**	(4,951)
Share of results of associates	7	**711**	1,550
Gain on disposal of property and equipment		**(72)**	-
Dividends from investment in associates		**-**	(70)
Operating profit before changes in operating assets and liabilities		**21,524**	13,833
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		**(3,010)**	1,685
Financing assets		**(71,256)**	(64,808)
Ijarah Muntahia Bittamleek		**(19,165)**	(15,021)
Other assets		**(8,885)**	(498)
Customers' current accounts		**3,821**	31,491
Other liabilities		**102**	2,911
Placements from financial institutions		**17,946**	(19,574)
Customers' investment accounts		**48,859**	(50,893)
Net cash used in operating activities		**(10,064)**	(100,874)
INVESTING ACTIVITIES			
Purchase of investment in real estate		**(1,092)**	-
Disposal of investment in real estate		**11,980**	7,799
Dividends from investment in associates		**-**	70
Purchase of investment securities		**(52,546)**	(50,229)
Purchase of property and equipment		**(1,481)**	(1,715)
Disposal of property and equipment		**506**	40
Proceeds from disposal of investment securities		**43,382**	31,849
Net cash from / (used in) investing activities		**749**	(12,186)
FINANCING ACTIVITIES			
Rights issue		**19,888**	-
Dividends paid		**(4)**	(1)
Net cash from / (used in) financing activities		**19,884**	(1)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**10,569**	(113,061)
Cash and cash equivalents at 1 January		**89,630**	202,691
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**100,199**	89,630
Cash and cash equivalents at year end comprise of:			
Cash on hand	3	**12,011**	9,048
Balances with CBB, excluding mandatory reserve deposits	3	**4,936**	4,295
Balances with banks and other financial institutions	3	**10,102**	7,720
Placements with financial institutions with original maturities less than 90 days	4	**73,150**	68,567
		100,199	89,630

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2015

					Reserves								
	Share capital BD'000	Treasury shares BD'000	Shares under employee share incentive scheme BD'000	Share premium BD'000	Statutory reserve BD'000	General reserve BD'000	Real estate fair value reserve BD'000	Investments fair value reserve BD'000	Retained earnings / (accumulated losses) BD'000	Total reserves BD'000	Equity attributable to owners of the parent BD'000	Non-controlling interest BD'000	Total owners' equity BD'000
Balance at 1 January 2015	93,967	(563)	-	-	11,809	1,000	7,361	1,101	(35,591)	(14,320)	79,084	11	79,095
Profit for the year	-	-	-	-	-	-	-	-	11,205	11,205	11,205	-	11,205
Shares issued during the year	940	-	(940)	-	-	-	-	-	-	-	-	-	-
Shares allocated during the year	-	-	61	30	-	-	-	-	-	-	91	-	91
Rights issue	17,094	-	-	2,794	-	-	-	-	-	-	19,888	-	19,888
Write off of accumulated losses	(14,560)	-	-	(30)	(11,809)	(1,000)	-	-	27,399	14,590	-	-	-
Net movement in investments fair value reserve	-	-	-	-	-	-	-	(480)	-	(480)	(480)	-	(480)
Net movement in real estate fair value reserve	-	-	-	-	-	-	(276)	-	-	(276)	(276)	-	(276)
Transfer of profit to statutory reserve	-	-	-	-	1,121	-	-	-	(1,121)	-	-	-	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(11)	(11)
Balance at 31 December 2015	**97,441**	**(563)**	**(879)**	**2,794**	**1,121**	**-**	**7,085**	**621**	**1,892**	**10,719**	**109,512**	**-**	**109,512**
Balance at 1 January 2014	93,967	(563)	-	-	10,879	1,000	11,301	4,248	(43,958)	(16,530)	76,874	1,242	78,116
Profit for the year	-	-	-	-	-	-	-	-	9,297	9,297	9,297	-	9,297
Net movement in investments fair value reserve	-	-	-	-	-	-	-	(3,147)	-	(3,147)	(3,147)	-	(3,147)
Net movement in real estate fair value reserve	-	-	-	-	-	-	(3,940)	-	-	(3,940)	(3,940)	-	(3,940)
Transfer of profit to statutory reserve	-	-	-	-	930	-	-	-	(930)	-	-	-	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(1,231)	(1,231)
Balance at 31 December 2014	93,967	(563)	-	-	11,809	1,000	7,361	1,101	(35,591)	(14,320)	79,084	11	79,095

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2015

	Qard Hasan receivables BD'000	*Funds available for Qard Hasan BD'000*	*Total BD'000*
Balance at 1 January 2015	**80**	**48**	**128**
Uses of Qard fund			
Marriage	**9**	**(9)**	**-**
Others (Waqf)	**9**	**(9)**	**-**
Total uses during the year	**18**	**(18)**	**-**
Repayments	**(38)**	**38**	**-**
Balance at 31 December 2015	**60**	**68**	**128**
Balance at 1 January 2014	79	49	128
Uses of Qard fund			
Marriage	22	(22)	-
Others (Waqf)	3	(3)	-
Total uses during the year	25	(25)	-
Repayments	(24)	24	-
Balance at 31 December 2014	80	48	128

	2015 BD'000	*2014 BD'000*
Sources of Qard fund		
Contribution by the Bank	**125**	125
Donation	**3**	3
	128	128

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2015

	2015	2014
	BD'000	BD'000
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the year	**282**	225
Non-Islamic income / late payment fee	**616**	659
Donations	**-**	150
Total sources of zakah and charity funds during the year	**898**	1,034
Uses of zakah and charity funds		
Philanthropic societies	**103**	441
Aid to needy families	**323**	311
Total uses of funds during the year	**426**	752
Undistributed zakah and charity funds at the end of the year	**472**	282

1 INCORPORATION AND ACTIVITIES

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank is licensed and regulated by the Central Bank of Bahrain ("CBB") and has a retail banking license. The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has ten branches (2014: eleven), all operating in the Kingdom of Bahrain.

The consolidated financial statements include the financial statements of the Bank and its subsidiaries (together the "Group"). The Bank holds 100% of the share capital of Abaad Real Estate Company B.S.C. (c).

During the year, the Bank liquidated its 100% wholly owned subsidiaries BisB MMF Company B.S.C. (c) and BisB Money Market Fund.

Abaad Real Estate Company B.S.C. (c) ("Abaad")
Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad has started operations during the year 2007. The main activity of Abaad is investment in real estate investments (in accordance with the Islamic Shari'a rules and principles).

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors issued on 21 February 2016.

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 years.

a. New standards, amendments, and interpretations

New standards, amendments, and interpretations effective from 1 January 2015:

FAS 23 – Consolidation
The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) issued amendments to FAS 23. 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 IFI has less than majority voting rights in an investee, control may also exist through

(a) agreement with the entity's other shareholders or the entity itself;
(b) rights arising from other contractual arrangements;
(c) the IFI's voting rights (de facto power);
(d) potential voting rights; or
(e) a combination thereof.

Further, FAS 23 does not provide specific guidance for assessment of control over special purpose vehicles (SPVs) where the Bank / Company has delegated power from its investors. The Bank / Company 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. The new control model focuses on the scope of decision making authority over the SPV, rights held by other parties and the Bank's / Company's aggregate economic interest in the investee. In particular, expanded guidance has been provided to assess when the Group's power 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). A principal will be required to consolidate the SPV where as an agent will not be required to consolidate the SPV.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

a. New standards, amendments, and interpretations (continued)

The Group reassessed its control conclusion for its investees as of 1 January 2015, being the date of initial application of these amendments and this has not resulted in any changes in the Group's current conclusions on control and consolidation.

New standards, amendments and interpretations issued but not yet 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 not expected to have a significant impact on the financial statements of the Group.

Early adoption

The Group did not early adopt any new standards during the year.

b. Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), and the Bahrain Commercial Companies Law. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses guidance from the relevant International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board.

c. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for "investment in real estate", "equity type instruments carried at fair value through equity" and "equity type instruments carried at fair value through statement of income" that have been measured at fair value.

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 2 dd.

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), which is also the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

d. Basis of consolidation

Subsidiaries are all entities (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group to the date that control seizes.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

e. Cash and cash equivalents

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain exluding mandatory reserve deposits, and balances with banks and other financial institutions, with original maturities of 90 days or less.

f. Placements with financial institutions

Placements with financial institutions comprise commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated net of deferred profits and provision for impairment, if any. Wakala receivables are stated at cost less provision for impairment, if any.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

h. Murabaha financing
Murabaha financing consist mainly of deferred sales transactions (Murabaha) which are stated net of deferred profits and provisions for impairment, if any.

Murabaha financing are sales on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

i. Musharaka financing
Musharaka financing are stated at the fair value of consideration given less impairment, if any.

Musharaka financing are a form of capital partnership. These are stated at fair value of consideration given less any impairment. Musharaka financing capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Group.

j. Investment securities
Investment securities comprise debt type instruments carried at amortised cost, equity type instruments carried at fair value through equity and equity type instruments carried at fair value through statement of income.

All investments securities, are initially recognised at fair value, being the value of the consideration given including transaction costs, except in the case of investments carried at fair value through statement of income, where transaction costs are expensed in the consolidated statement of income.

Debt type instruments carried at amortised cost
These are investments which have fixed or determinable payments of profit and capital. Subsequent to initial recognition, these are measured at amortised cost using the effective profit rate method less impairment, if any. Any gain or loss on such instruments is recognised in the consolidated statement of income when the instruments are de-recognised or impaired.

Equity type instruments carried at fair value through equity
Subsequent to acquisition, equity type instruments are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income for the year.

Impairment losses on equity type instruments carried at fair value through equity are not reversed through the consolidated statement of income and increases in their fair value after impairment are recognised directly in owners' equity.

Equity type instruments carried at fair value through statement of income
These are measured at fair value with changes in fair value recognised in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar terms and risk characteristics.

Investments classified at fair value through equity where the Bank 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.

l. Investment in 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 or joint 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 the 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

The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associates and the carrying value and recognises this amount in the consolidated statement of income.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances. Latest available financial information is used to account for these under the equity method of accounting.

m. Ijarah Muntahia Bittamleek

These are initially recorded at cost. Ijarah assets and Ijarah Muntahia Bittamleek mainly comprise of land and buildings and certain other assets. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.

Depreciation is calculated on all Ijarah Muntahia Bittamleek other than land (which is deemed to have an indefinite life), at rates calculated to write off the cost of each asset over its useful life.

n. Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate are re-measured to fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Investment in real estate (continued)

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consoliated statement of income in previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

o. Property and equipment

Property and equipment is recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

The calculation of depreciation is on the following basis:

Buildings	25 to 35 years
Fixtures and fittings	5 years
Equipment	5 years
Furniture	5 years

p. Equity of investment accountholders

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 anyrestrictions 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.

q. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib share, in order to cater for future losses for equity of investment accountholders.

r. Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders after taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment accountholders.

s. Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net invested funds method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment accountholders and other accounts is the responsibility of investment accountholders.

t. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

u. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the right to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities
A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

w. Treasury shares
These are own equity instruments of the Group which are reacquired through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

x. Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

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

z. Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legal or religious 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.

aa. Revenue recognition

Murabaha
Income from Murabaha financing contracts is recognised on a time-apportioned basis over the period of the conract using the effective profit rate method. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Musharaka
Profit or losses in respect of the Bank's share in Musharaka financing transaction that commence and end during a single financial period is recognised in the income statement at the time of liquidation (closure of the contract). Where the Musharaka 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 Musharaka agreement.

Sukuk
Income from Sukuk is recognised using the effective profit rate over the term of the instrument.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

aa. Revenue recognition (continued)

Placements with financial institutions
Income on placements from financial institutions is recognised proportionately over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

Ijarah Muntahia Bittamleek
Income from Ijarah Muntahia Bittamleek is recognised proportionately over the lease term. The Ijarah Muntahia Bittamleek income is net of depreciation.

Dividends income
Dividends are recognised when the right to receive payment is established.

Income from Ijarah assets
Rental income is accounted for on a straight-line basis over the Ijarah term.

Fee and commission income
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.

Group's share as a Mudarib
The Group's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related mudaraba agreements.

Income allocation
Income is allocated proportionately between equity of investment accountholders and shareholders on the basis of the average balances outstanding during the year.

bb. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in owners' equity as part of the fair value adjustment.

cc. Impairment of financial assets

An assessment is made at each consolidated financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. Impairment is determined as follows:

(a) For assets carried at fair value through equity, a significant or prolonged decline in fair value below its cost is an objective evidence of impairment. If such evidence exists impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated

For equity type instruments carried at fair value through equity, impairment losses recognised in the consolidated statement of income are subsequently reversed through equity.

For fair value through equity 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)

cc. Impairment of financial assets (continued)

(b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

These include debt-type instruments, financing assets and receivables. 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 assets 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 credit risk characteristics.

dd. Use of estimates and judgements in preparation of the consolidated financial statements

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

Going concern

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

Impairment

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

Collective impairment provision

Impairment is assessed collectively for losses on Islamic financing facilities that are not individually significant and for individually significant facilities where the loss is incurred but not reported. Collective impairment is evaluated on each reporting date with each portfolio receiving a separate review.

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of the consolidated financial statements. The valuation of such investments is based on the fair value criteria explained in note 2.k above.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Classification of investments

Management decides on acquisition of a financial asset whether it should be classified as equity type instrument carried at fair value through equity or through statement of income.

Fair value of investment in real estate

The fair value of investment in real estate is determined by independent real estate valuation experts based on recent real estate transactions with similar characteristics and locations.

ee. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

ff. Customers' current accounts

Balances in current (non-investment) accounts are recognised when received by the Bank. The transactions are measured at the cash equivalent amount received by the Bank at the time of 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.

gg. Employees' benefits

Provision is made for amounts payable under the Bahrain Labour law applicable to non-Bahraini employees' accumulated periods of service at the date of the consolidated statement of financial position, subject to completion of a minimum period of employment. Provision for this is made by calculating the notional liability had all employees left at the reporting date.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organization scheme as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

hh. 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.

ii. Repossessed assets

In certain circumstances, property is repossessed following the foreclosure on financing facilities that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'.

jj. 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.

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2015 ***BD'000***	*2014* *BD'000*
Cash on hand	**12,011**	9,048
Balances with CBB, excluding mandatory reserve deposits	**4,936**	4,295
Balances with banks and other financial institutions	**10,102**	7,720
	27,049	21,063
Mandatory reserve with CBB	**34,065**	31,055
	61,114	52,118

The mandatory reserve with CBB is not available for use in the day-to-day operations.

4 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Jointly financed 2015 BD'000	*Jointly financed 2014 BD'000*
Commodity Murabaha	**59,116**	30,502
Deferred profits	**(7)**	(15)
	59,109	30,487
Wakala	**14,041**	38,080
	73,150	68,567

5 FINANCING ASSETS

	Jointly financed 2015 BD'000	*Jointly financed 2014 BD'000*
Murabaha (note 5.1)	**371,881**	308,710
Musharaka (note 5.2)	**103,767**	99,311
	475,648	408,021

5.1 Murabaha

	Jointly financed 2015 BD'000	*Jointly financed 2014 BD'000*
Tasheel	**226,578**	201,487
Tawarooq	**128,068**	125,701
Altamweel Almaren	**41,008**	-
Letters of credit refinance	**18,343**	17,208
Motor vehicles Murabaha	**14,769**	17,139
Credit cards	**13,920**	12,357
Others	**230**	4,008
	442,916	377,900
Qard fund	**60**	80
Gross receivables	**442,976**	377,980
Deferred profits	**(46,808)**	(44,219)
Provision for impairment	**(24,287)**	(25,051)
	371,881	308,710

Non-performing Murabaha financing outstanding as of 31 December 2015 amounted to BD 19,011 thousand (2014: BD 21,593 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

The composition of the Murabaha financing portfolio before provision for impairment by sector is as follows:

	2015 BD'000	*2014 BD'000*
Commercial	**51,094**	85,971
Financial institutions	**4,530**	18,430
Others including retail	**340,544**	229,360
	396,168	333,761

The Group exposures of Murabaha financing portfolio is concentrated in Middle East.

5.2 Musharaka

	Jointly financed 2015 BD'000	*Jointly financed 2014 BD'000*
Musharaka in real estate	**106,761**	104,943
Provision for impairment	**(2,994)**	(5,632)
	103,767	99,311

Non-performing Musharaka financing outstanding as of 31 December 2015 amounted to BD 4,938 thousand (2014: BD 19,003 thousand).

6 INVESTMENT SECURITIES

	2015			2014		
	Self financed BD'000	Jointly financed BD'000	Total BD'000	Self financed BD'000	Jointly financed BD'000	Total BD'000
i) Debt type instruments						
Sukuk - carried at amortised cost						
At 1 January	-	85,808	85,808	-	41,705	41,705
Acquisitions	-	52,546	52,546	-	50,229	50,229
Disposals and redemptions	-	(37,573)	(37,573)	-	(6,126)	(6,126)
At 31 December	-	100,781	100,781	-	85,808	85,808
Provision for impairment		(4,914)	(4,914)	-	(3,974)	(3,974)
Total net Sukuk	-	95,867	95,867	-	81,834	81,834
ii) Equity type instruments						
Quoted shares - at fair value through equity						
At 1 January	1,393	-	1,393	25,418	-	25,418
Fair value change	(374)	-	(374)	(2,235)	-	(2,235)
Disposals	-	-	-	(16,941)	-	(16,941)
Write off	-	-	-	(4,849)	-	(4,849)
Total net	1,019	-	1,019	1,393	-	1,393
Unquoted shares - at cost less impairment						
At 1 January	29,201	-	29,201	29,249	-	29,249
Disposals	-	-	-	(48)	-	(48)
Write off	(4,238)	-	(4,238)	-	-	-
At 31 December	24,963	-	24,963	29,201	-	29,201
Provision for impairment	(5,418)	-	(5,418)	(7,721)	-	(7,721)
Total net	19,545	-	19,545	21,480	-	21,480
Unquoted managed funds - at cost less impairment						
At 1 January	36,541	-	36,541	43,808	-	43,808
Foreign currency translation changes	(301)	-	(301)	(1,242)	-	(1,242)
Disposals	(5,809)	-	(5,809)	(6,025)	-	(6,025)
Write off	(15,987)	-	(15,987)	-	-	-
At 31 December	14,444	-	14,444	36,541	-	36,541
Provision for impairment	(240)	-	(240)	(17,687)	-	(17,687)
Total net	14,204	-	14,204	18,854	-	18,854
Quoted investments - carried at fair value through statement of income						
At 1 January	-	-	-	866	-	866
Disposals	-	-	-	(866)	-	(866)
At 31 December	-	-	-	-	-	-
Total net investments securities	34,768	95,867	130,635	41,727	81,834	123,561

7 INVESTMENT IN ASSOCIATES

	Self financed 2015 BD'000	*Self financed 2014 BD'000*
At 1 January	**30,835**	36,236
Share of results of associates, net	**(711)**	(1,550)
Share of changes in investee's equity	**(366)**	(821)
Dividends received	**-**	(70)
Provision for impairment	**(1,642)**	(2,960)
At 31 December	**28,116**	30,835

Investments in associates comprise:

Name of associate	*Ownership %*	*Country of Incorporation*	*Nature of business*
*Takaful International Company B.S.C.**	*22.75%*	*Bahrain*	*Takaful International Company B.S.C. was incorporated in 1989, and carries out Takaful and Retakaful activities in accordance with the teachings of Islamic Shari'a.*
Liquidity Management Centre B.S.C. (c)	*25.00%*	*Bahrain*	*Liquidity Management Centre B.S.C. (c) was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that will allow Islamic financial services institutions to effectively manage their assets and liabilities.*
Arabian C Real Estate Company	*19.00%*	*Kuwait*	*Arabian C Real Estate Company is a Kuwaiti Shareholding Company incorporated in accordance with the Kuwaiti Commercial Companies law, Decree No.15 of 1960, as amended and regulated by the Ministry of Commerce & Industry of Kuwait. The company's activity focuses on real estate development and the overall management of a variety of strategic investments in the real estate and infrastructure sectors in GCC/MENA region.*
Enjaz Property Development Company B.S.C. (c)	*32.76%*	*Bahrain*	*Enjaz Property Development Company B.S.C.(c) is a closed joint stock company incorporated in the Kingdom of Bahrain and is registered with the Ministry of Industry and Commerce since 6 February 2008 under commercial registration number 67713-1. The company is engaged in the purchase and sale of land and property development.*
Al Dur Energy Investment Company	*29.41%*	*Bahrain*	*Al Dur Energy Investment Company is an exempt company with limited liability incorporated in the Cayman Islands on 10 June 2009 and operates under registration number 227032. The company operates in the Kingdom of Bahrain with the sole purpose of holding a 15% indirect interest in a power and water plant project company, Al Dur Power and Water Company B.S.C.(c), in the Kingdom of Bahrain.*

* Takaful International Company B.S.C. is a listed company on the Bahrain Bourse. The latest available quoted price of BD 0.100 per share was as of 22 April 2015, no further trades have taken place on the company's shares since that date. The estimate fair value of the investment based on this price is BD 1,422 thousand (2014: BD 2,062 thousand).

8 IJARAH MUNTAHIA BITTAMLEEK

	2015					2014				
	Jointly financed					*Jointly financed*				
	Land	**Buildings**	**Aviation related assets**	**Others**	**Total**	*Land*	*Buildings*	*Aviation related assets*	*Others*	*Total*
	BD'000	**BD'000**	**BD'000**	**BD'000**	**BD'000**	*BD'000*	*BD'000*	*BD'000*	*BD'000*	*BD'000*
Cost:										
At 1 January	**44,305**	**65,112**	**7,876**	**10,762**	**128,055**	40,588	56,058	7,287	9,101	113,034
Additions	**12,094**	**56,553**	**8,033**	**4,960**	**81,640**	6,824	37,766	589	2,548	47,727
Settlements	**(33,299)**	**(16,287)**	**(8,200)**	**(4,966)**	**(62,752)**	(3,107)	(28,712)	-	(887)	(32,706)
At 31 December	**23,100**	**105,378**	**7,709**	**10,756**	**146,943**	44,305	65,112	7,876	10,762	128,055
Depreciation:										
At 1 January	**-**	**10,044**	**1,792**	**2,229**	**14,065**	-	12,406	1,245	1,273	14,924
Charge for the year	**-**	**7,901**	**275**	**272**	**8,448**	-	3,431	547	959	4,937
Relating to settled assets	**-**	**(3,127)**	**(1,791)**	**(1,903)**	**(6,821)**	-	(5,793)	-	(3)	(5,796)
At 31 December	**-**	**14,818**	**276**	**598**	**15,692**	-	10,044	1,792	2,229	14,065
Provision for impairment	**(7,642)**	**(2,213)**	**-**	**(3,335)**	**(13,190)**	(9,175)	(2,538)	-	-	(11,713)
Net book value:										
As at 31 December	**15,458**	**88,347**	**7,433**	**6,823**	**118,061**	35,130	52,530	6,084	8,533	102,277

Non-performing Ijarah Muntahia Bittamleek as of 31 December 2015 is BD 29,754 thousand (2014: BD 24,702 thousand).

Ijarah rental receivable comprises of both rental on Ijarah assets and depreciation charge on Ijarah Muntahia Bittamleek assets which is fully receivable from the customers.

9 PROPERTY AND EQUIPMENT

	2015						
	Lands	*Buildings*	*Fixture and fitting*	*Equipment*	*Furniture*	*Work in progress*	*Total*
	BD'000	*BD'000*	*BD'000*	*BD'000*	*BD'000*	*BD'000*	*BD'000*
Cost:							
At 1 January	7,143	7,387	3,393	9,065	823	410	28,221
Additions / Transfer	-	264	302	763	46	106	1,481
Disposals / Transfer	(388)	-	-	(46)	-	-	(434)
At 31 December	6,755	7,651	3,695	9,782	869	516	29,268
Depreciation:							
At 1 January	-	1,439	2,517	6,550	614	-	11,120
Provided during the year	-	260	336	889	69	-	1,554
Relating to disposed assets	-	-	-	(46)	-	-	(46)
At 31 December	-	1,699	2,853	7,393	683	-	12,628
Net Book Value	6,755	5,952	842	2,389	186	516	16,640

	2014						
	Lands	*Buildings*	*Fixture and fitting*	*Equipment*	*Furniture*	*Work in progress*	*Total*
	BD'000	*BD'000*	*BD'000*	*BD'000*	*BD'000*	*BD'000*	*BD'000*
Cost:							
At 1 January	7,183	4,535	2,906	8,008	677	3,269	26,578
Additions	-	2,884	487	1,057	146	-	4,574
Disposals / Transfer	(40)	(32)	-	-	-	(2,859)	(2,931)
At 31 December	7,143	7,387	3,393	9,065	823	410	28,221
Depreciation:							
At 1 January	-	1,255	2,162	5,566	528	-	9,511
Provided during the year	-	216	355	984	86	-	1,641
Relating to disposed assets	-	(32)	-	-	-		(32)
At 31 December	-	1,439	2,517	6,550	614	-	11,120
Net Book Value	7,143	5,948	876	2,515	209	410	17,101

10 INVESTMENT IN REAL ESTATE

	Self financed	
	2015	2014
	BD'000	BD'000
Land	**41,006**	51,339
Buildings	**2,595**	2,595
	43,601	53,934

	2015	2014
	BD'000	BD'000
At 1 January	**53,934**	58,219
Capitalized expediture	**1,092**	257
Disposal	**(10,814)**	(7,799)
Fair value changes	**(611)**	3,257
At 31 December	**43,601**	53,934

Investment in real estate comprises properties located in the Kingdom of Bahrain and the United Arab Emirates.

Investment in real estate held for capital appreciation is stated at fair value as at 31 December, which has been determined based on valuations performed by independent third party property valuers who have the qualification and experience of valuing similar properties in the same location.

11 OTHER ASSETS

	2015	2014
	BD'000	BD'000
Repossessed assets	**5,245**	-
Receivables	**4,761**	2,012
Staff advances	**1,324**	1,177
Prepaid expenses	**696**	658
Other	**1,665**	881
	13,691	4,728

12 OTHER LIABILITIES

	2015	2014
	BD'000	BD'000
Managers' cheques	**3,786**	4,150
Payable to vendors	**1,626**	3,039
Accrued expenses	**3,312**	3,334
Life insurance (Takaful) fees payable	**1,844**	1,928
Dividends payable	**802**	806
Zakah and charity fund	**472**	282
Other	**4,774**	2,979
	16,616	16,518

13 EQUITY OF INVESTMENT ACCOUNTHOLDERS

As equity of investment accountholders' funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group maintains an investment risk reserve amounting to BD 227 thousand (2014: BD 103 thousand) and maintains a profit equalisation reserve amounting to BD 995 thousand (2014: BD 395 thousand).

The Group's share, as Mudarib, in the profits of equity of investment accountholders is up to a maximum of 85% (2014: 85%).

13.1 Profit Distribution by Type of Account

The following table represents the distribution of profit by type of equity of investment accountholders:

	2015		*2014*	
Account Type	***Percentage of funds invested***	***Distributed profit rate***	*Percentage of funds invested*	*Distributed profit rate*
Defined deposits	**85%**	**0.94%**	85%	1.29%
Specific investment deposits	**85%**	**1.73%**	85%	1.89%
Investment certificates	**85%**	**3.73%**	85%	3.50%
Savings accounts	**45%**	**0.12%**	45%	0.23%
Iqra	**90%**	**1.50%**	90%	2.16%
Tejoori	**45%**	**0.13%**	45%	0.23%
Vevo	**45%**	**0.12%**	45%	0.22%

13.2 Equity of investment accountholders balances

	2015 BD'000	*2014 BD'000*
Type of Equity of Investment Accountholders		
Customer investment accounts		
Balances on demand	**306,918**	246,880
Contractual basis	**308,542**	319,721
	615,460	566,601

13.3 Equity of Investment Accountholders Reserves

	2015 BD'000	***Movement BD'000***	*2014 BD'000*
Profit equalisation reserve	**995**	**600**	395
Investment risk reserve	**227**	**124**	103

13.4 Return on equity of investment accountholders

	2015 BD'000	*2014 BD'000*
Gross return to equity of investment accountholders	**22,306**	23,519
Profit equalization reserve	**(600)**	(100)
Group's share as a Mudarib	**(16,395)**	(16,092)
Investment risk reserve	**(124)**	(40)
Net return on equity of investment accountholders	**5,187**	7,287

14 OWNERS' EQUITY

		2015 BD'000	2014 BD'000
(i)	Share capital		
a)	*Authorised*		
	2,000,000,000 shares (2014: 2,000,000,000 shares) of BD 0.100 each	**200,000**	200,000
b)	*Issued and fully paid up*		
	974,412,625 shares (2014: 939,673,499 shares) of BD 0.100 each	**97,441**	93,967

Rights issue
The shareholders in their extra-ordinary general meeting held on 27 October 2015 resolved to increase the Bank's paid up capital by BD 17.10 million through rights issue to existing shareholders at a price of BD 0.117 per share. The Bank collected subscriptions of BD 20 million.

Capital reduction
The shareholders in their extra-ordinary general meeting held on 27 October 2015 resolved to write-off accumulated losses of BD 27,399 thousand as of 30 June 2015, by adjusting BD 11,809 thousand against statutory reserve, BD 1,000 thousand against general reserve, BD 30 thousand against share premium and BD 14,560 thousand against paid up share capital thereby reducing the Bank's paid up share capital 15.34% (reduction of 2 shares for each 13 shares approximately) from BD 94,907 thousand to BD 80,347 thousand.

Shares under employee share incentive scheme
At the ordinary general meeting for the year 2014 which was held on 23 March 2015, and in pursuant to CBB's Sound Remuneration Practices, the Employee Share Incentive Scheme (the "Scheme") was approved. As a result, 9,396,735 ordinary shares amounting to BD 940 thousand were issued during the year. These unallocated shares under the Scheme are deducted from equity. The Bank has allocated 603,537 ordinary shares with a nominal value of BD 61 thousand to the employees under this Scheme, which has resulted in share premium of BD 30 thousand. The allocated shares under the Scheme are entitled to cash and stock dividends.

(ii) Treasury Shares	2015		2014
	Number of Shares	**BD'000**	BD'000
At 31 December	3,620,609	563	563

	2015 BD'000
Cost of treasury shares	**563**
Market value of treasury shares	**518**

The treasury shares as a percentage of total shares in issue is 0.39%.

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

14 OWNERS' EQUITY (continued)

(iii) Reserves

Statutory reserve
As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year should be transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. A transfer has been made of BD 1,121 thousand (2014: BD 930) representing 10% of the profit for the year BD 11,205 thousand (2014: BD 9,297 thousand). The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of CBB.

General reserve
The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the net income for the year after appropriating statutory reserve.

Real estate fair value reserve
This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the retained earnings upon sale of the investment in real estate.

Investment fair value reserve
This represents the net unrealised gains or losses on equity investments relating to self financed investments.

14 OWNERS' EQUITY (continued)

(iv) Additional information on shareholding pattern

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

		2015		2014	
Names	*Nationality*	*Number of shares*	*% holding*	*Number of shares*	*% holding*
National Bank of Bahrain	Bahraini	**283,155,923**	**29.06%**	242,038,206	25.76%
Social Insurance Organisation	Bahraini	**141,579,292**	**14.53%**	121,113,560	12.89%
Social Insurance Organisation - Military Pension Fund	Bahraini	**141,579,293**	**14.53%**	121,113,559	12.89%
Islamic Development Bank	Saudi	**140,497,329**	**14.42%**	165,956,945	17.66%
General Council of Kuwaiti Awaqaf	Kuwaiti	**69,932,530**	**7.18%**	68,013,739	7.24%

2) The Group has only one class of shares and the holders of these shares have equal voting rights.

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

	2015			2014		
	Number of shares	*Number of shareholders*	*% of total outstanding shares*	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	**140,197,699**	**3,376**	**14.39%**	153,552,651	3,383	16.40%
1% up to less than 5%	**57,470,559**	**3**	**5.90%**	67,884,839	3	7.22%
5% up to less than 10%	**69,932,530**	**1**	**7.18%**	68,013,739	1	7.23%
10% up to less than 50%	**706,811,837**	**4**	**72.53%**	650,222,270	4	69.15%
	974,412,625	**3,384**	**100.00%**	939,673,499	3,391	100.00%

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

Categories:

	2015		2014	
	No. of shares	***No. of directors***	*No. of shares*	*No. of directors*
Less than 1%	**438,632**	**4**	400,000	4

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above):

	2015		2014	
	No. of shares	***Percentage of Shareholding***	*No. of shares*	*Percentage of Shareholding*
Directors	**438,632**	**0.045%**	400,000	0.043%
Shari'a supervisory members	**169,158**	**0.017%**	199,812	0.021%
Senior management	**603,537**	**0.062%**	-	-
	1,211,327	**0.124%**	599,812	0.064%

15 COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2015	*2014*
	BD'000	*BD'000*
Letters of credit and acceptances	**2,918**	2,775
Guarantees	**40,971**	18,760
Operating lease commitments *	**1,238**	742
	45,127	22,277

* The Group has entered into commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2015	*2014*
	BD'000	*BD'000*
Within one year	**70**	225
After one year but not more than five years	**1,168**	517
	1,238	742

16 CAPITAL ADEQUACY

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue Sukuk etc. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital structure primarily consists of its paid-up capital, including share premium and reserves. From a regulatory perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities and future sources and uses of funds.

The Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which came into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasis common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements.

16 CAPITAL ADEQUACY (continued)

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2015	*2014*
	BD'000	*BD'000*
Tier 1 Capital	**102,571**	74,727
Tier 2 Capital	**14,426**	19,722
Total Capital Base	**116,997**	94,449

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. The capital requirements for these risks are as follows:

	2015	*2014*
	BD'000	*BD'000*
Risk weighted exposure:		
Total Credit Risk Weighted Assets	**587,023**	532,703
Total Market Risk Weighted Assets	**15,589**	15,769
Total Operational Risk Weighted Assets	**57,153**	56,583
Total Regulatory Risk Weighted Assets	**659,765**	605,055
Capital Adequacy Ratio	**17.73%**	15.61%
Tier 1 Capital Adequacy Ratio	**15.55%**	12.35%
Minimum requirement	**12.5%**	12%

The capital adequacy ratio as at 31 December 2015 has been calculated in accordance to Basel III; where as at 31 December 2014 the ratio was calculated in accordance to Basel II.

17 INCOME FROM FINANCING

	2015 BD'000	2014 BD'000
Income from Murabaha financing	**19,889**	17,870
Income from placements with financial institutions	**139**	515
Income from Musharaka financing	**6,781**	5,474
Income from Ijarah Muntahia Bittamleek	**6,721**	4,843
	33,530	28,702

18 INCOME FROM INVESTMENT SECURITIES

	2015 BD'000	2014 BD'000
Dividend income	**739**	2,044
Gain on sale of equity type instruments	**-**	1,946
	739	3,990

19 INCOME FROM INVESTMENT IN REAL ESTATE

	2015 BD'000	2014 BD'000
Gain on sale	**1,166**	4,951
Rental income	**367**	420
(Impairment charge) / reversal of impairment	**(339)**	3,617
	1,194	8,988

20 OTHER EXPENSES

	2015 BD'000	2014 BD'000
Card Centre expenses	**1,865**	1,445
Marketing and advertisement expenses	**1,678**	1,124
Premises and equipement expenses	**1,259**	1,116
Information technology related expenses	**1,016**	830
Communication expenses	**780**	772
Professional services	**620**	1,018
Board remunerations *	**535**	-
Board of directors sitting fees	**125**	248
Donations	**-**	150
Shari'a committee fees & remuneration	**45**	80
Others	**1,872**	1,719
	9,795	8,502

* No provision for Board Remuneration made in 2014 as the 2013 provision was utilised for 2014 remuneration.

21 IMPAIRMENT PROVISIONS

21.1 Impairment provisions on financing assets

	Specific impairment		Collective impairment		Total	
	2015	*2014*	*2015*	*2014*	*2015*	*2014*
	BD'000	*BD'000*	*BD'000*	*BD'000*	*BD'000*	*BD'000*
At 1 January	**31,578**	30,672	**10,818**	4,173	**42,396**	34,845
Charge for the year	**7,003**	8,659	**1,119**	6,645	**8,122**	15,304
Recoveries & write backs	**(2,919)**	(7,711)	**-**	-	**(2,919)**	(7,711)
	4,084	948	**1,119**	6,645	**5,203**	7,593
Amounts written off against provision	**(6,517)**	(42)	**(611)**	-	**(7,128)**	(42)
At 31 December	**29,145**	31,578	**11,326**	10,818	**40,471**	42,396

The above impairment provision relates to the following:

	2015	*2014*
	BD'000	*BD'000*
Murabaha financing	**24,287**	25,051
Musharaka financing	**2,994**	5,632
Ijarah Muntahia Bittamleek	**13,190**	11,713
	40,471	42,396

21.2 Impairment provisions on investments

	2015	*2014*
	BD'000	*BD'000*
At 1 January	**33,418**	35,096
Charge for the year *	**4,925**	6,657
Recoveries & write backs	**(1,175)**	(2,321)
	3,750	4,336
Amounts written off against provision	**(21,817)**	(4,849)
Foreign currency translation changes	**(353)**	(1,165)
At 31 December	**14,998**	33,418

* Impairment charge includes BD 1,642 thousand (2014: BD 2,960 thousand) for impairment provision on investment in associate.

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2015 amounts to BD 112,863 thousand (31 December 2014: BD 65,298 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

The Group has taken all the provision allocated to the non performing assets to their own capital. Hence the equity of investment accountholders was not charged for any provision for impairment.

22 ZAKAH

The total Zakah payable as of 31 December 2015 amounted to BD 1,289 thousand (2014: BD 444 thousand) of which the Bank has nil Zakah payable (2014: BD nil) based on the statutory reserve, general reserve and retained earning as at 1 January 2015. The Zakah balance amounting to BD 1,289 thousand or 1.3 fils per share (2014: BD 444 thousand or 0.5 fils per share) is due and payable by the shareholders.

23 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit or loss for the year by the weighted average number of shares during the year as follows:

	2015	*2014*
Profit for the year in BD'000	**11,205**	9,297
Weighted average number of shares	**799,408**	790,510
Basic and diluted earnings per share (fils)	**14.02**	11.76

Basic and diluted earnings per share are the same since the Group has not issued any instruments that would have a dilutive effect.

24 RELATED PARTY TRANSACTIONS

Related parties comprise of major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial terms.

The significant balances and transactions with related parties at 31 December were as follows:

	2015				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Assets					
Financing assets	-	-	2,074	17	2,091
Investment in associates		28,116	-	-	28,116
Other assets	-	-	-	201	201
Liabilities and Equity of investment accountholders					
Placements from financial institutions	37,700	-	-	-	37,700
Customers' current accounts	-	968	520	247	1,735
Other liabilities	-	1,844	-	-	1,844
Equity of investment accountholders	41,567	275	1,255	917	44,014

	2015				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Income					
Income from financing	-	4	151	1	156
Share of results of associates, net	-	(711)	-	-	(711)
Return on equity of investment accountholders	(472)	(1)	(1)	(27)	(501)
Expense on placements from financial Institutions	(248)	-	-	-	(248)
Expenses					
Other expenses	-	-	(705)	(1,009)	(1,714)

24 RELATED PARTY TRANSACTIONS (continued)

	2014				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Assets					
Placements with financial institutions	-	4,734	-	-	4,734
Financing assets	-	-	2,339	-	2,339
Investment in associates	-	30,835	-	-	30,835
Other assets	-	-	64	194	258
Liabilities and Equity of investment accountholders					
Customers' current accounts	-	1,277	594	49	1,920
Other liabilities	-	1,928	-	-	1,928
Equity of investment accountholders	45,639	425	457	591	47,112

	2014				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Income					
Income from financing	-	112	243	-	355
Share of results of associates	-	(1,550)	-	-	(1,550)
Return on equity of investment accountholders	(990)	(7)	(6)	(21)	(1,024)
Expenses					
Other expenses	-	-	(328)	(825)	(1,153)

Compensation of the key management personnel is as follows:

Key management personnel includes staff at the grade of assistant general manager or above.

	2015 BD'000	*2014 BD'000*
Short term employee benefits	**849**	688
Other long term benefits	**160**	137
	1,009	825

25 RISK MANAGEMENT

Introduction
Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. These risks and the processes to mitigate these risks have not significantly changed from the previous year.

The Group is exposed mainly to credit, liquidity, market and operational risks.

Risk management objectives
The risk management philosophy of the Group is to identify, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining it's risk exposure within self-imposed parameters.

The Group has defined its risk appetite within the parameters of its risk strategy. The Group reviews and realigns its risk appetite as per the evolving business plan of the Group with changing economic and market scenarios. The Group also assesses its tolerance for specific risk categories and its strategy to manage these risks.

Risk appetite of the Group is articulated in terms of the following dimensions:

1. Adequate capital level;
2. Stable profitability and growth;
3. Sufficient liquidity; and
4. Sound reputation.

Structure and Organization of the Risk Management Function
Risk Management Structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of the risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

a. Establishing overall policies and procedures; and
b. Delegating authority to the Executive Committee, Credit and Investment Committee, Chief Executive Officer and further delegation to the management to approve and review.

Executive Committee (EC) comprises of three designated members of the Board of Directors. The Executive Committee is delegated authority by the Board to manage the ongoing activities of the Group. Decisions are taken by the Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): As delegated by the Board of Directors and as per approved terms of reference, the Committee has been delegated with authorities and responsibilities including, approving extension or renewal of credit facilities, granting temporary excesses to customers with credit facilities approved by the Board, approving early repayments of facilities, monitoring the performance and quality of the Group's credit portfolio and overseeing the administration and effectiveness of and compliance with, the Group's credit policies through the review of such processes, reports and other information as it deems appropriate.

Risk Measurement and Reporting Systems
Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Risk Management Department (RMD) to the Credit Committee. The limits are reviewed and revised at least annually (or earlier if required).

25 RISK MANAGEMENT (continued)

a) Credit Risk

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

Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, such as obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is to be compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

Notwithstanding the above, when facilities are extended to family owned limited liability entities, the following is normally obtained;

a. Collateral security, fully covering the exposure; or
b. Joint and several guarantees of shareholders directly involved in managing the entity as well as of shareholders owing at least 80% of the shares of the entity.

Third party guarantees in support of credit facilities are accepted only after review and approval of appropriate guarantor lines.

(i) Gross maximum exposure to credit risk

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The CIC periodically reviews and approves the value of securities. It has also approved a list of acceptable securities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure, without taking account of any collateral held or other credit enhancements.

	2015	*2014*
	BD'000	*BD'000*
Balances with banks and Central Bank	**49,103**	43,070
Placements with financial institutions	**73,150**	68,567
Financing assets	**502,929**	438,704
Ijarah Muntahia Bittamleek	**131,251**	113,990
Ijarah rental receivables	**15,692**	14,065
Investment securities	**100,781**	85,808
	872,906	764,204
Letters of credit, guarantees and acceptances	**43,889**	21,535

25 RISK MANAGEMENT (continued)

a) Credit Risk (continued)

(ii) Risk concentrations of the maximum exposure to credit risk

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

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2015 BD'000	31 December 2014 BD'000	**31 December 2015 BD'000**	31 December 2014 BD'000	**31 December 2015 BD'000**	31 December 2014 BD'000
Geographical region						
Middle East	**967,215**	867,636	**865,149**	788,901	**45,127**	22,277
Rest of Asia	**-**	-	**917**	913	**-**	-
North America	**5,241**	4,350	**68**	195	**-**	-
Europe	**3,892**	3,221	**702**	6,103	**-**	-
	976,348	875,207	**866,836**	796,112	**45,127**	22,277
Industry sector						
Trading and manufacturing	**60,541**	43,824	**26,318**	27,141	**13,267**	13,824
Aviation	**518**	8,241	**10,768**	17,114	**701**	466
Real Estate	**236,509**	246,215	**20,509**	15,916	**1,817**	632
Banks and financial institutions	**126,933**	119,083	**109,900**	109,928	**646**	2,543
Personal / Consumer	**333,181**	240,365	**426,838**	390,264	**1,403**	-
Government Organization	**117,266**	75,590	**101,252**	92,540	**-**	-
Others	**101,400**	141,889	**171,251**	143,209	**27,293**	4,812
	976,348	875,207	**866,836**	796,112	**45,127**	22,277

(iii) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset, based on the Group's credit rating system. Amounts reported are gross of any provision for impairment.

	31 December 2015				
	Neither past due nor impaired				
	High grade BD'000	***Standard grade BD'000***	***Past due but not impaired BD'000***	***Individually impaired BD'000***	***Total BD'000***
Murabaha	**9,197**	**332,055**	**24,385**	**30,531**	**396,168**
Musharaka	**372**	**86,574**	**12,410**	**7,405**	**106,761**
Ijarah Muntahia Bittamleek	**-**	**80,055**	**10,350**	**40,846**	**131,251**
Ijarah rental receivables	**-**	**12,148**	**1,846**	**1,698**	**15,692**
	9,569	**510,832**	**48,991**	**80,480**	**649,872**

25 RISK MANAGEMENT (continued)

a) Credit Risk (continued)

(iii) Credit quality per class of financial assets (continued)

	31 December 2014				
	Neither past due nor impaired				
	High grade	*Standard grade*	*Past due but not impaired*	*Individually impaired*	*Total*
	BD'000	*BD'000*	*BD'000*	*BD'000*	*BD'000*
Murabaha	1,257	274,236	21,637	36,631	333,761
Musharaka	1,117	66,856	13,251	23,719	104,943
Ijarah Muntahia Bittamleek	-	72,234	6,742	35,014	113,990
Ijarah rental receivables	-	9,119	906	4,040	14,065
	2,374	422,445	42,536	99,404	566,759

Restructured facilities during the year amounted to BD 3,789 thousand (2014: BD 21,353 thousand), and they included amounts totalling BD 1,247 (2014: Nil) which as at 31 December 2015 are past due more than 90 days.

(iv) Aging analysis of past due but not impaired financing facilities per class of financial assets

2015	***Up to 30 days BD'000***	***31 to 60 days BD'000***	***61 to 90 days BD'000***	***Total BD'000***
Murabaha	**18,777**	**2,833**	**2,775**	**24,385**
Musharaka	**7,604**	**4,045**	**761**	**12,410**
Ijara Muntahia Bittamleek	**9,020**	**1,190**	**140**	**10,350**
	35,401	**8,068**	**3,676**	**47,145**

2014	*Up to 30 days BD'000*	*31 to 60 days BD'000*	*61 to 90 days BD'000*	*Total BD'000*
Murabaha	16,618	4,414	605	21,637
Musharaka	6,517	2,532	4,202	13,251
Ijara Muntahia Bittamleek	5,421	1,321	-	6,742
	28,556	8,267	4,807	41,630

b) Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and quoted investments.

25 RISK MANAGEMENT (continued)

b) Liquidity Risk (continued)

Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2015 was as follows:

	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
ASSETS								
Cash and balances with the banks and Central Bank	27,049	-	-	-	-	-	34,065	61,114
Placements with financial institutions	73,150	-	-	-	-	-	-	73,150
Financing assets	25,049	3,532	13,614	27,451	78,663	327,339	-	475,648
Ijarah Muntahia Bittamleek	5,653	-	-	41	9,646	102,721	-	118,061
Investment securities	5,143	16,472	7,793	500	22,524	78,203	-	130,635
Investment in associates	-	-	-	-	-	-	28,116	28,116
Investment in real estate	-	-	-	-	-	-	43,601	43,601
Ijarah rental receivables	406	96	6	-	1,934	13,250	-	15,692
Property and equipment	-	-	-	-	-	-	16,640	16,640
Other assets	4,342	1,324	-	-	2,780	-	5,245	13,691
Total assets	140,792	21,424	21,413	27,992	115,547	521,513	127,667	976,348
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	63,288	30,228	-	-	-	-	-	93,516
Customers' current accounts	141,244	-	-	-	-	-	-	141,244
Other liabilities	16,616	-	-	-	-	-	-	16,616
Equity of investment accountholders	78,104	119,532	84,330	324,352	5,652	-	3,490	615,460
Total liabilities and equity of investment accountholders	299,252	149,760	84,330	324,352	5,652	-	3,490	866,836
Liquidity gap	(158,460)	(128,336)	(62,917)	(296,360)	109,895	521,513	124,177	109,512
Cumulative liquidity gap	(158,460)	(286,796)	(349,713)	(646,073)	(536,178)	(14,665)	109,512	-

25 RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2014 was as follows:

	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
ASSETS	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Cash and balances with the banks and Central Bank	21,063	-	-	-	-	-	31,055	52,118
Placements with financial institutions	64,865	3,702	-	-	-	-	-	68,567
Financing assets	31,750	26,797	6,968	23,715	60,521	258,270	-	408,021
Ijarah Muntahia Bittamleek	14,573	13	2	7,569	11,451	68,669	-	102,277
Investments securities	24,760	6,933	9,129	-	8,266	53,096	21,377	123,561
Investment in associates	-	-	-	-	-	-	30,835	30,835
Investment in real estate	-	-	-	-	-	-	53,934	53,934
Ijarah rental receivables	-	-	-	14,065	-	-	-	14,065
Property and equipment	-	-	-	-	-	-	17,101	17,101
Other assets	-	-	4,728	-	-	-	-	4,728
Total assets	157,011	37,445	20,827	45,349	80,238	380,035	154,302	875,207
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	75,185	385	-	-	-	-	-	75,570
Customers' current accounts	137,423	-	-	-	-	-	-	137,423
Other liabilities	16,518	-	-	-	-	-	-	16,518
Equity investment accountholders	127,278	78,299	80,252	271,858	5,931	-	2,983	566,601
Total liabilities and equity of investment accountholders	356,404	78,684	80,252	271,858	5,931	-	2,983	796,112
Liquidity gap	(199,393)	(41,239)	(59,425)	(226,509)	74,307	380,035	151,319	79,095
Cumulative liquidity gap	(199,393)	(240,632)	(300,057)	(526,566)	(452,259)	(72,224)	79,095	-

25 RISK MANAGEMENT (continued)

c) Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, equity prices, and foreign exchange rates.

(i) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities and equity of investment accountholders as the repricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

(ii) Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

In order to measure the risk of equity on its financial positions, the Group adopts a sensitivity analysis on its quoted equity portfolio for a 10% increase of the portfolio value with all other variables remaining constant. The effect of a similar decrease in equity prices is expected to be equal and opposite to the effect of the increase shown.

Equity price risk variation as of 31 December is as follows:

2015	***Increase in equity price***	***Sensitivity of profit or loss***	***Sensitivity of equity***
	%	***BD'000***	***BD'000***
Kuwait Stock Exchange	+10		**102**

2014	*Increase in equity price*	*Sensitivity of profit or loss*	*Sensitivity of equity*
	%	*BD'000*	*BD'000*
Kuwait Stock Exchange	+10	-	139

As at the consolidated statement of financial position date, the Group has unquoted (equities and sukuk) of BD 115 million (31 December 2014: BD 104 million). The impact of changes in the value of these unquoted equities and sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

25 RISK MANAGEMENT (continued)

c) Market Risk (continued)

iii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group views the Bahraini Dinar as its functional currency. The Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure they are maintained within established limits.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	Equivalent Long (short) 2015 BD '000	*Equivalent Long (short) 2014 BD '000*
Currency		
Pound Sterling	**4**	(1,149)
Euro	**(10,131)**	1,653
CAD	**(4,295)**	-
JPY	**(1,122)**	-
Kuwaiti Dinars	**-**	(11,490)

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant currency risk.

Moreover, as the Group does not have significant exposure to other currencies, movement of the currency exchange rates against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated statement of income and owners' equity.

d) Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

26 DEPOSIT PROTECTION SCHEME

Deposits held with the Bank's Bahrain operations are covered by the regulation protecting Deposits issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

27 SEGMENTAL INFORMATION

For management purposes, the Group is organised into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling investments in local and international markets and investment in properties.

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

Segment information is disclosed as follows:

	31 December 2015			
	Corporate BD'000	***Retail BD'000***	***Investment BD'000***	***Total BD'000***
Total net income	**10,906**	**25,909**	**4,904**	**41,719**
Total expenses	**(2,744)**	**(14,217)**	**(4,600)**	**(21,561)**
Provision for impairment	**(4,417)**	**(786)**	**(3,750)**	**(8,953)**
Profit / (loss) for the year	**3,745**	**10,906**	**(3,446)**	**11,205**
Other information				
Segment assets	**239,128**	**416,251**	**320,969**	**976,348**
Segment liabilities, and equity	**277,850**	**490,128**	**208,370**	**976,348**

	31 December 2014			
	Corporate BD'000	*Retail BD'000*	*Investment BD'000*	*Total BD'000*
Total income	7,955	21,716	13,180	42,851
Total expenses	(3,480)	(15,364)	(2,781)	(21,625)
Provision for impairment	(6,355)	(1,238)	(4,336)	(11,929)
Profit / (loss) for the year	(1,880)	5,114	6,063	9,297
Other information				
Segment assets	219,150	348,118	307,939	875,207
Segment liabilities, and equity	260,948	452,778	161,481	875,207

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

28 FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December:

2015	***Level 1 BD'000***	***Level 2 BD'000***	***Level 3 BD'000***	***Total BD'000***
Investments carried at fair value through equity				
Quoted equity securities	**1,019**	**-**	**-**	**1,019**

2014	*Level 1 BD'000*	*Level 2 BD'000*	*Level 3 BD'000*	*Total BD'000*
Investments carried at fair value through equity				
Quoted equity securities	1,393	-	-	1,393

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2015, there were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3.

The carrying values of other financial assets and liabilities are not significantly different from their fair values at 31 December 2015, except for the Group's investments in Sukuk held at amortised cost amounting to BD 95,867 thousand (2014: BD 81,834 thousand) with fair values amounting to BD 95,915 thousand (2014: BD 81,181 thousand).

29 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various charatable purposes. The movements in these funds is shown in statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

30 SHARI'A SUPERVISORY BOARD

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

31 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

32 COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported profit or owners' equity.